



Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. in 2017

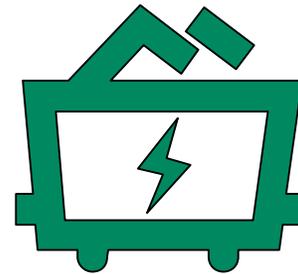


Bogdanka, 23 March 2018



14.4%

Share in the hard coal market in Poland



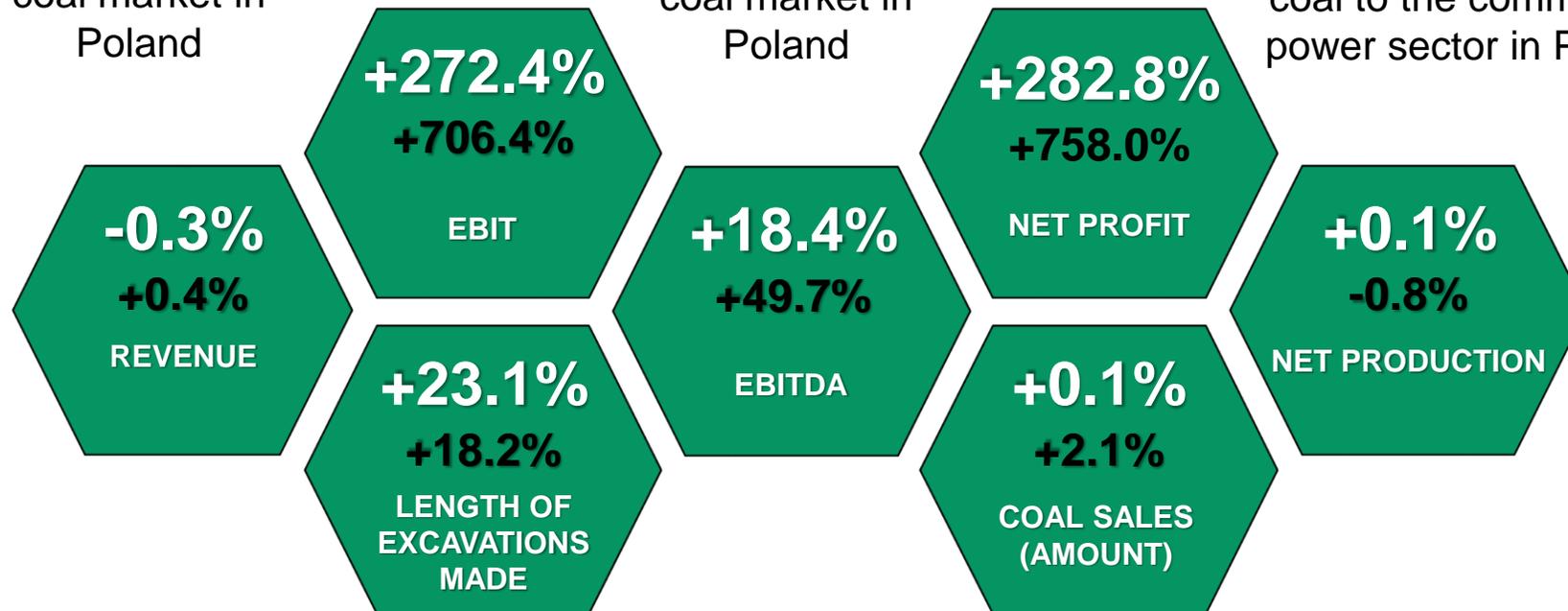
17.9%

Share in the thermal coal market in Poland



25.3%

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



□ Change 2017//2016

■ Change in Q4 2017/ Q4 2016



Dear Sirs and Madams,

In 2017, the separate revenue of LW Bogdanka S.A. amounted to PLN 1,777 million, which was similar to the revenue from 2016. We consider this to have been a good year in terms of results. After excluding one-off events, the Company's EBITDA amounted to PLN 579 million, and net profit to over PLN 178 million. Those favourable results were achieved partly due to cost control and optimisation of capital expenditure. We sold coal under long-term agreements at prices similar to those in 2016 despite a rebound in the spot market. This year we are expecting an increase of several percent in the prices of coal sold by Bogdanka. Coal production in 2017 stood at a level of over 9 million tonnes, which is similar to the previous year. Thus, the Company has achieved its annual production target.

One of the most important events of the last year was the publication of the Strategy for LW Bogdanka S.A. - Mining Area of the Enea Group until 2025, with a 2030 prospect. It assumes average annual production of 9.2 million tonnes under a flexible scenario, which we plan to be implementing, while maintaining capital expenditure at a level of PLN 4,000 million from 2016 to 2025. We will continue our key initiatives, including the use of modern highly efficient face equipment. We estimate that as a result of implementing the Strategy, the unit mining cash cost in Bogdanka will decrease by 10% by 2025.

At the end of last year, we received a licence for hard coal mining from the Ostrów deposit with resources estimated at 172 million tonnes. This is a key step in implementing the Strategy's plans regarding the resource base. In the first stage we will extract the deposit based on the existing underground infrastructure. However, the first wall will begin to be mined around 2020. We estimate that the target level of extraction will be achieved in 2032. Resources from key areas secure the functioning of the mine in the long run.

Last year, we also adopted a human resources development strategy, which assumes closer cooperation with technical and mining secondary schools and cooperation with major research centres in Poland, which will enable us to acquire the best graduates of such schools.

We intend to allocate up to 50% of the separate net profit for dividend in the coming years, despite facing an extensive investment schedule, including, for example, the construction of infrastructure in the Ostrów deposit after 2025, where expenditures are estimated at PLN 1,200 to 1,300 million. We focus on modern solutions based on state-of-the-art technology. As a smart mine we will continue to invest in IT tools and systems that support the work of our plant. We will also strive to make the Company as effective as possible, and ensure that our mining activities are in harmony with the environment.

Last year was the second full year in which we operated as part of the Enea Group. We sell around 80% of our coal inside the Group, which gives us confidence and comfort of operation. Since joining the Enea Group in October 2015, we have been creating a modern resource and energy group. The cooperation strengthens the market position of each Group company.

We are very pleased that the market has once again appreciated the transparency of Bogdanka. Last year, we were among the winners of the first edition of the Transparent Company of the Year 2016 ranking, organised by the editors of Parkiet and the Accounting and Tax Institute, under the honorary patronage of the Warsaw Stock Exchange. We were also the winner of the Deloitte Central European Sustainability Report Award 2016 for the integrated report 2015, in which five countries participated: Croatia, Czech Republic, Poland, Romania, and Hungary. At the same time, in December 2017, for the ninth time we qualified as one of the winners of the RESPECT Index, which includes companies listed on the stock exchange operating in accordance with the best standards in terms of corporate and information governance and investor relations, and which takes into account certain environmental, social and employee considerations.

We would like to thank our shareholders for another year together and assure them that in the years to come we will do everything to generate a satisfactory return on investment. Our goal is long-term strengthening of the Company's position and building its value for all shareholders.

Sincerely,

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



1. Summary of operational activities



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

In 2017, LW Bogdanka S.A. generated:

- net revenue of **PLN 1,777.3 million – decrease by 0.3% y/y**
- EBITDA of **PLN 694.2 million – increase by 18.4% y/y**
- net profit of **PLN 673.3 million – increase by 282.8% y/y**

In Q4 2017, LW Bogdanka S.A. generated:

- net revenue of **PLN 472.6 million – increase by 0.4% y/y**
- EBITDA of **PLN 255.6 million – increase by 49.7% y/y**
- net profit of **PLN 526.7 million – increase by 758.0% y/y**

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

<ul style="list-style-type: none"> • reversal of impairment loss of assets • continued high efficiency as a result of the implementation of a cost optimisation programme • stable sales situation • release of the provision for coal allowance • high output (64.7%) in 2017 compared to 2016 	<ul style="list-style-type: none"> • delayed price increases at the Company due to price formulas • technical and geological problems

LW Bogdanka S.A. improved **the ratio of debt plus employee liabilities/EBITDA by more than 55%** (compared to the end of 2016) from the level of **1.47 to the level of 0.66**, which is related to a significant improvement of the Company's cash situation and the optimisation of capital expenditure.

In the past year the Company retained the extraction of thermal coal **at a level of 9.1 million tonnes of coal**. This level results from the production plan for 2017 and means maintaining the level of previous year's production.

KEY EVENTS

Key events in 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 Company was informed that the TFI PZU investment funds increased their share in the total vote at the Company's General Shareholders Meeting to exceed 10%.

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

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

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

The Extraordinary General Shareholders Meeting of the Company adopted the following resolutions:

- amending the By-Laws of the General Shareholders Meeting
- determining the rules for 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 Company 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 Company'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

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 Company 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. 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 was 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.

Q3 2017

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.





Key events in 2017 and events until the publication date

Q4 2017 and events until the publication date

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

On 10 October 2017 the Company signed an Annex to the Long-Term Agreement for the sale of thermal coal with Zakłady Azotowe Puławy S.A. As a result of concluding the Annex, the value of the Agreement amounts to a total of PLN 1,095 million net.

Signing an agreement on payment of coal allowances

On 17 October 2017, the Company signed with the trade unions active at the Company an agreement to amend the Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of the Agreement, the balance of provisions held by the Company has changed.

Obtaining of the hard coal mining licence for the Ostrów deposit

On 17 November 2017 the Company obtained a hard coal mining licence for the Ostrów deposit (the Ludwin Mining Area) with the exploitable resources of about 172 million tonnes.

Obtaining of the licence is a key factor for the Company's plan to double its exploitable resources, as provided for in the Development Strategy of LW Bogdanka S.A. Mining Area of the Enea Group until 2025. Increasing the resource base translates into the possibility of long-term planning and ensuring the Group a stable raw-materials base.

Reversal of the impairment loss on non-current assets, as disclosed in the financial statements for 2015.

On 12 December 2017 the Company's Management Board became aware that the premises for an impairment loss of assets, notified by the Company in Current Report No. 9/2016 of 4 March 2016, have ceased to exist; it also received information on the estimated value of the amount subject to the reversal.

The findings of estimating the new recoverable value of the analysed assets indicated the necessity to reverse the whole amount of the impairment loss after adjustment of depreciation/amortisation which would be calculated between the day on which the impairment loss was made and the day on which the reversal will be made.

This value had no impact on the EBITDA result. The above actions were of accounting nature and had no impact on the Company's liquidity.

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

On 20 December 2017 the Company received a notification from the Minister of Energy of appointing, under Article 16.4 of the Company's Articles of Association, Ms Anna Spoz as a member of the Supervisory Board.

Extraordinary General Shareholders Meeting of LW Bogdanka S.A. on 29 December 2017

The Extraordinary General Shareholders Meeting of the Company adopted the following resolutions:

- to replace the entire wording of the existing Articles of Association with the following new wording, being the consolidated text thereof,
- to change the composition of the Supervisory Board,
- to amend Resolutions 16 and 18 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. on 7 March 2017.

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

On 29 December 2017 the Extraordinary General Shareholders Meeting of LW Bogdanka S.A., resolved to remove Ms Magdalena Kaczmarek from the Supervisory Board. Further, the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. resolved to appoint Ms Ewa Nowaczyk to the Supervisory Board.

Conclusion of an Annex to the Long-Term Agreement with ENERGA Elektrownie Ostrołęka S.A.

On 3 January 2018, the Company signed an annex to the Long-Term Agreement for the sale of thermal coal with ENERGA Elektrownie Ostrołęka S.A. As a result of the Annex, the term of the Agreement has been extended until the end of 2022 (previously in effect up until the end of 2019) and the terms and conditions of supplies in 2018 have been specified. The value of the Agreement in 2018-2022 will total PLN 404 million.

Appointment of a chartered auditor

On 5 January 2018, the Supervisory Board of LW Bogdanka S.A. adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. with registered office in Warsaw, as an entity authorised to:

- review the Company's financial statements and the Group's consolidated financial statements for the first halves of 2018-2020 prepared in accordance with the IFRS,
- audit the Company's financial statements and the Group's consolidated financial statements for 2018-2020 prepared in accordance with the IFRS.

Dismissal of the President of the Management Board of LW Bogdanka S.A. by the Supervisory Board and appointment of an Acting President

On 16 February 2018 the of LW Bogdanka S.A., acting under Article 17.1.9 of the Company's Articles of Association, adopted the resolution on dismissal of Mr Krzysztof Szlaga from the position of the President and a Member of the Management Board. Furthermore, the Supervisory Board adopted a resolution on appointing Mr Sławomir Karlikowski, the current Vice-President of the Management Board in charge of Production and the Head of Mining Supervision in Mining Facility, as acting President of the Management Board.

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

On 26 February 2018 the Company signed an Annex to the Long-Term Agreement for the sale of thermal coal with Zakłady Azotowe Puławy S.A. As a result of concluding the Annex, the value of the Agreement amounts to a total of PLN 1,340 million net.

Agreement relating to salary payments with Trade Unions

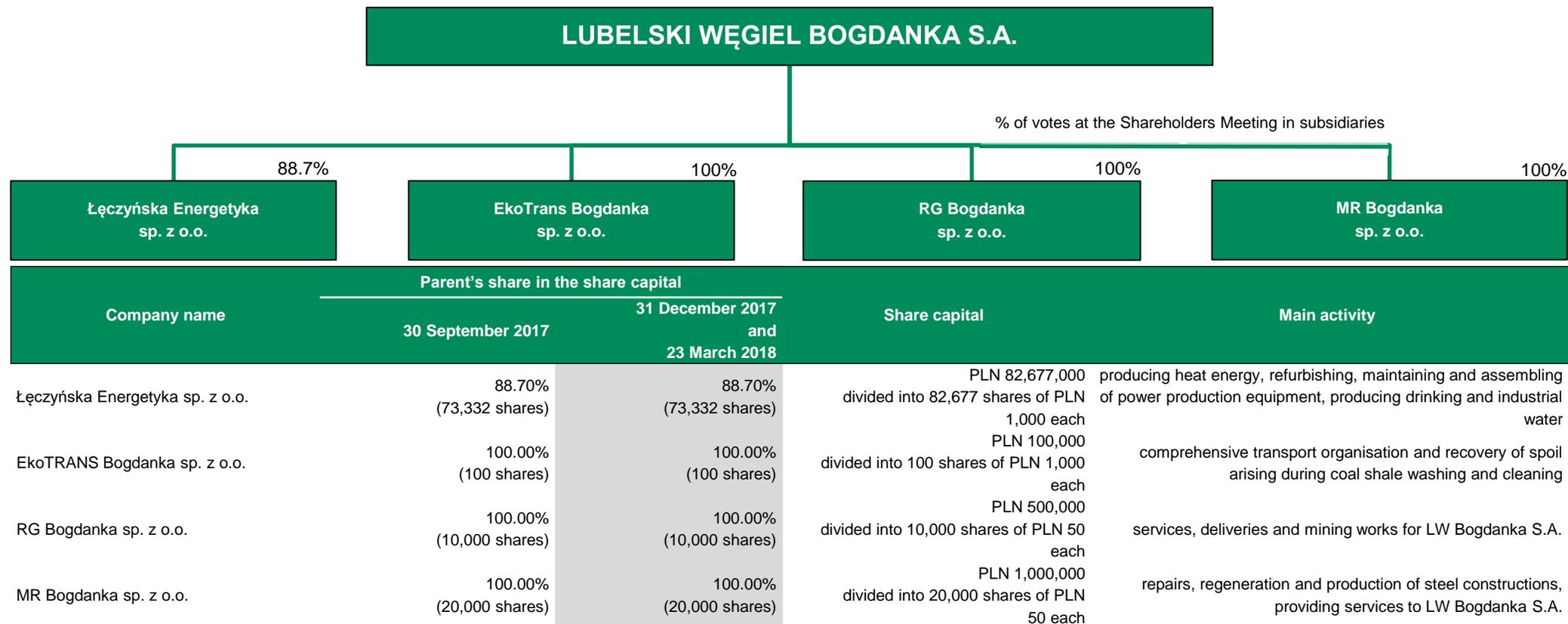
On 28 February 2018 the Company entered into an agreement with trade unions regarding the level of remunerations in 2018. The parties have agreed that beginning from 1 March 2018 the rates of personal classification of employees will grow by 5%. Furthermore, by the end of March, a one-off incentive benefit will have been paid in the gross amount of PLN 2,700. Considering the above raise and the bonus, the planned amount of an average monthly salary at LW Bogdanka S.A. in 2018 will be PLN 7,932.84.

Appointment by the Supervisory Board of the President of the Management Board of LW Bogdanka S.A.

On 19 March 2018, the Supervisory Board of LW Bogdanka S.A. adopted a resolution on the appointment, effective as of 21 March 2018, of the President of the Management Board. Mr Artur Wasil joined Lubelski Węgiel Bogdanka S.A. in 2002, where he went through the levels of professional career from a trainee to a team foreman of extraction brigade. In 2012 Mr Wasil started work at PRG Linter S.A. where he performed the role of Mining Director, and in 2014 was appointed to the position of the President of the Management Board.



2. Organisation and business activities of 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 basic management rules of LW Bogdanka S.A.

In order to make the rules of management of LW Bogdanka S.A. more precise, the following were introduced in 2017:

- amendments to the Company's Organisational Rules and the organisation chart;
- uniform text of the Social Benefits Fund Regulations;
- new uniform Terms and Conditions of Coal Sales;
- new uniform Rules of Work and Bonus Payments to Sales Representatives were introduced in the Company's Sales Department;
- updated Instruction of system of passes in traffic of individuals;

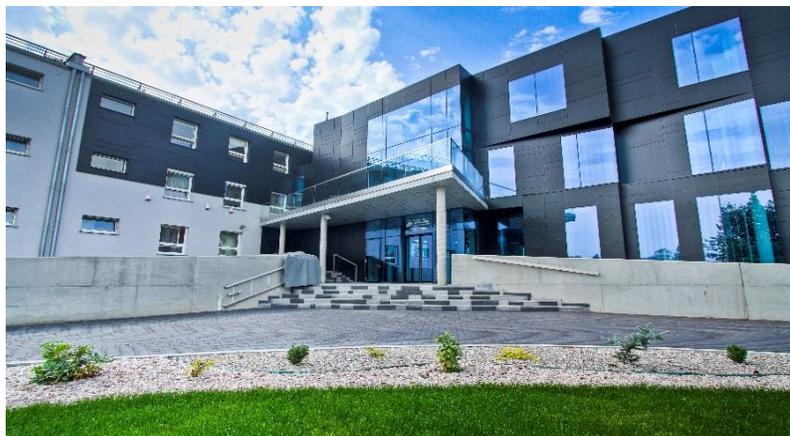
- guidelines on accepting and handing gifts;
 - board for LW Bogdanka S.A. strategy was appointed;
 - rules for organisational units for the cases of identifying defects in the subject matter of an agreement;
 - a team was appointed for developing an anti-terrorist instruction;
 - a team was appointed for updating a Plan for Protection of Critical Infrastructure at LW BOGDANKA S.A.;
 - updated Rules of Audit and Internal Control;
 - electronic module for planning of absence an accounting for the plan of absence in the INTEGRA personnel system;
 - rules of the Protection and Circulation of information between LWB and the ENEA Group;
 - rules of Employee Initiatives Programme "Safer Workplace" (Pracujmy Bezpieczniej);
 - a Representative for the Protection of Inside Information was appointed.
 - Audit Firm selection policy.
- The Company has updated its existing documentation and introduced the new ones in order to increase transparency and streamline a delivery service process.



Name and registered office of the Company

Lubelski Węgiel Bogdanka Spółka Akcyjna

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



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

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

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

- Act of 15 September 2000 – Commercial Companies Code (Dz. U. 2017.1577)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. 2017.2126)

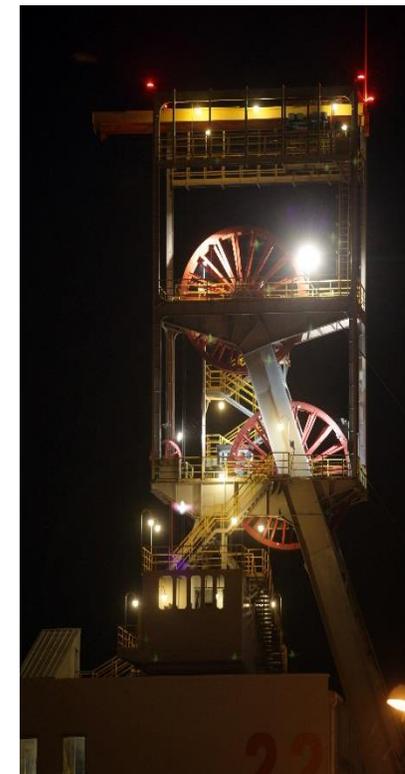
The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

History in Brief

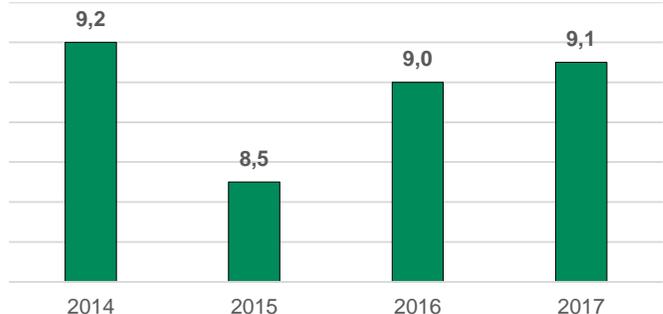
- 17 January 1975 - decision on construction of a pilot and excavation mine in Bogdanka. Bogdanka was one of the seven mines which were to be built in the Lublin Coal Basin, but ultimately it turned out to be the only one to materialise after the project was suspended.
- 1 March 1993 – transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A.
- 29 December 1994 – in performance of a bank settlement, as a result of debt conversion, KWK Bogdanka S.A. ceased to be a company wholly owned by the State Treasury, as the new shareholders (creditors) took up 4.0% of shares in the Company.
- 25 June 2009 - debut on the Warsaw Stock Exchange.
- 9 March 2010 – the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital.
- 4 January 2012 - 3,208,111 employee shares were introduced to trading on the Warsaw Stock Exchange.
- 4 February 2013 - another lot of 34,754 shares were introduced. LW Bogdanka S.A.'s public float totals 34,013,455 shares. As at the date of publishing this Report, the remaining 135 shares are registered shares.
- 14 September 2015 - Enea S.A. announced a tender offer for the shares of LW Bogdanka S.A., in which it stated that it intended to acquire up to 64.57% of the total number of votes at the Company's General Shareholders Meeting.
- 29 October 2015 - LW Bogdanka S.A. became part of the Enea Group.





Business activities of LW Bogdanka S.A.

In 2017 the LW Bogdanka Group extracted 9.1 million tonnes of hard coal, which accounted for 14.4% of total hard coal extraction in Poland.



LW Bogdanka S.A. has three excavation fields:

- Bogdanka
- Nadrybie
- Stefanów

The core business of the Company is the production and sales of hard coal, and especially thermal fine coal. In 2017, the coal production structure was as follows:



Key customers

The Company supplies mainly the industrial customers based in the eastern and north-eastern Poland. The market is stable and sales transactions are based on long-term agreements. The main sectors where LW Bogdanka S.A. supplies its commercial coal include commercial and industrial power sectors.

The Company's main customers include:

- the Enea Group – Enea Wytwarzanie – approx. 56% of revenue
- the Enea Group – Enea Polaniec (formerly: ENGIE Polska Energia S.A.) – approx. 22% of revenue
- Grupa Azoty - Zakłady Azotowe Puławy S.A. – approx. 6% of revenue
- PGE Paliwa sp. z o.o. – approx. 3% of revenue
- Energa - Elektrownie Ostrołęka – approx. 2% of revenue

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





Business activities of LW Bogdanka S.A.

Cutting-edge technologies

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

Cost control

The Company continues to be the efficiency leader in Poland's mining sector due to its Cost Optimisation Programme which is consistently pursued by the Company. Its strategy assumes further reduction of the Unit Mining Cash Cost.

New deposits

At the end of 2017 the Company has obtained from the Minister of the Environment a mining licence for extraction of hard coal from the Ostrów deposit in the Ludwin Mining Area, with the exploitable resources of about 172 million tonnes. LW Bogdanka S.A. also continues to work towards obtaining a mining licence in the K6-K7 area – the Company is a party to a number of administrative proceedings as well as court and administrative proceedings in connection with the process of obtaining the licences. Moreover, the Company has an exploration licence for the Orzechów deposit.



Towards a Smart Mine

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

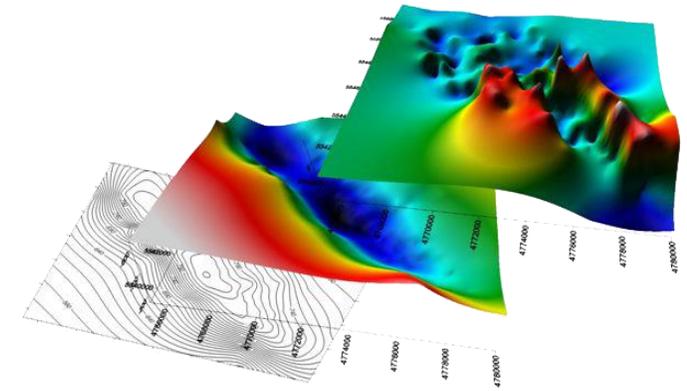
- our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals
- our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both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

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

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

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

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





Production capacity of the Company

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

- Bogdanka Field
- Nadrybie Field
- Stefanów Field.

Shafts of the mine are located in:

- Bogdanka
- Nadrybie
- Stefanów.

While the lifting shafts are located in:

- Bogdanka
- Stefanów.

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

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

The third licence held by LW Bogdanka S.A., obtained on 17 November 2017, is a hard coal mining licence for the Ostrów deposit in the Ludwin Mining Area. The deposit is situated in the area of Ludwin, Łęczna, Ostrów Lubelski, Sosnowica, Uścimów and Puchaczów communes and municipalities, with an area totalling 78.67 sq. km; mining will be carried out in seams 377/1, 379, 382 and 385/2.



Deposit reserves of hard coal in Bogdanka updated as at 31 December 2017.

Reserves [million tonnes]	year				Difference 2017-2016
	2014	2015	2016	2017	
Total balance	781.6	771.2	763.9	754.0	-9.9
Balance*	421.7	411.3	401.9	392.3	-9.6
Industrial	297.3	288.4	280.0	269.1	-10.9
Exploitable	224.3	217.3	210.6	203.0	-7.6

*Balance reserves (covered by a licence)

Deposit reserves of hard coal (Stręczyn – K-3) updated as at 31 December 2017.

Reserves [million tonnes]	2017
Total balance	145.7
Balance*	128.9
Industrial	21.4
Exploitable	16.5

*Balance reserves (covered by a licence)



Deposit reserves of hard coal in Ostrów updated as at 31 December 2017.

Reserves [million tonnes]	2017
Total balance	1,251.4
Balance*	1,251.4
Industrial	250.8
Exploitable	171.8

*Balance reserves (covered by a licence)





Development strategy of LW Bogdanka S.A.

Development strategy of LW Bogdanka S.A.

On 9 February 2017 the Company announced its Development Strategy of LW Bogdanka S.A. - 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 Enea 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 Company wants to implement the flexible development scenario as part of its Strategy.

Based on the above assumptions the Company 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 Company 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.

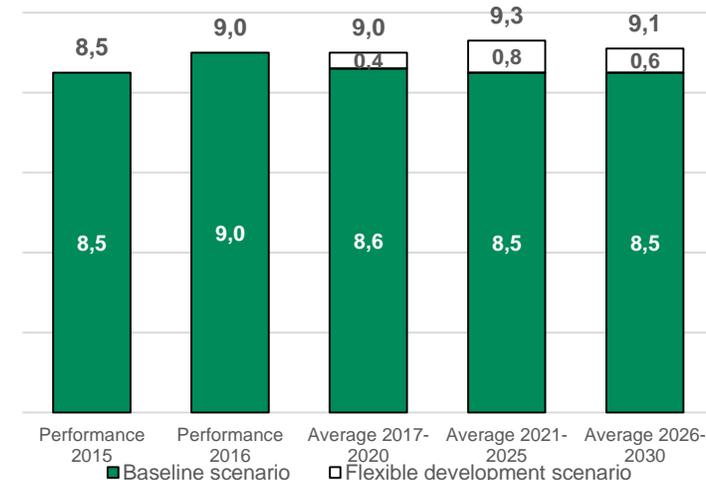
During the implementation of the Strategy, the Management Board will focus on the key areas of operations of the Company, which include:

1. Close cooperation and utilisation of synergies in the Kozienice-Bogdanka-Połaniec mining and power generation area
2. Efforts to double the exploitable resources on the basis of the Ostrów deposit and to extend the mine's life to about 50 years
3. Implementation of strategic initiatives which include:

- feasibility study of construction of an integrated gasification cycle (IGCC) system for production of fuel for power generation within ENEA;
- 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 Company.

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

Planned coal production in 2015-2030 [million tonnes]



CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

Dividend policy

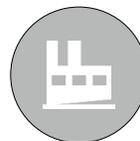
In the medium and long run, the Company wants to remain a dividend-paying company, and the Management Board intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the LW Bogdanka S.A.'s separate financial statements, prepared in accordance with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



Projects completed in 2017

In 2017, LW Bogdanka S.A. performed the planned investment tasks. In this respect, in 2017, capital expenditure for non-current assets totalled PLN 365,257,000.

The plan for 2017 included groups of tasks: development investments, including the purchase of machines and equipment, modernisation and repairs as well as operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, etc.



INVESTMENTS AT LW BOGDANKA S.A.

New licences

The Company purchased a right to a mining use for the purpose of mining from the Ostrów deposit.

Purchase and assembly of new machines and equipment – in 2017 LW Bogdanka S.A. purchased and assembled machines and equipment for PLN a total amount of 6,673,000, including costs of assembling. The most important ones include: air barrages, conveyor feeder, marshalling railway, cooling devices, and roadheading machines.

Purchases of finished goods – the finished goods worth PLN 7,408,000 were purchased. The most important ones included: ready-made transportation devices (including braking trolleys, hoists, HUPA, running gear for containers, excavated material transportation units, mobile explosives storehouse), hydraulic pumps and aggregates, electric devices (including motors, electric equipment), and other ready-made devices.

Upgrades of machines and equipment – the amount of PLN 1,603,000 was assigned for the modernisation of: combustion locomotives, combustion tractors, lifting machines and sprinkler systems for coal-cutting machines.

Repairs of machines and equipment – the amount of PLN 19,258,000 was assigned for the repairs of coal-cutting machines, wall conveyors and a wall bottom conveyor.

Enlargement of the mining waste neutralisation facility in Bogdanka – PLN 3,902,000; construction and assembly works are carried out as part of Stage I Part 2; works on design documentation for Stage II have been commenced. Acquisition of plots located in the area of the facility was continued.

MCPD replacement projects – PLN 4,636,000 the project includes modernisation of steel structures, modernisation of stone loading unit and adjustment of bridge 207.2.



DEVELOPMENT INVESTMENTS LW BOGDANKA S.A.

New workings and upgrade of existing ones

New workings were built in accordance with the applicable Mining Works Schedule. The total length of the gallery workings as part of investments in the whole 2017 was equal to 28.1 km with the value of PLN 264,802,000.

Modernisation of workings with respect to reconstruction of galleries and vertical workings was performed in accordance with the adopted schedules. Their total value amounted to PLN 37,619,000.



OPERATIONAL INVESTMENTS LW BOGDANKA S.A.

Projects completed in 2017

ICT

Alarm and monitoring system – performed works included: fire alarm system, firefighting system monitoring, GPS supervision system and containers monitoring in the Stefanów Field with a total value of PLN 1,679,000.

Tasks pursued as part of the following projects: the “Integrated Production Management System” and the “Smart Mine” as well as purchases of the hardware and software were continued.

Transport

Cars were purchased.

Other: Construction of facilities on the surface – a tower crane was constructed; documentation for a parking bay for the marshalling railway.

Environment protection – works on discharge of underground waters have been started as well as building a pumping station at the C Ditch in Nadrybie.

Capital expenditure for excavations in 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	19,236.3			
Basic excavations	linear	8,828.5	63,895	366,315	302,420
Reconstructions	linear / natural	1,454.9			

Selected items of capital expenditure in LW Bogdanka S.A.

[PLN '000]	PTE (Technical and Economic Plan) 2017	PTE 2017 implementation	PTE 2017 implementation [%]	PTE 2018
New excavations and upgrades of existing ones	289,659	302,421	104.4%	291,365
Maintenance of machinery	40,243	34,942	86.8%	142,890
Obtaining new licences	18,660	10,346	55.4%	3,900
Ostrów Field	-	-	-	645
Longwalls	-	-	-	40
Other development investments	11,614	11,336	97.6%	28,021
ICT	8,686	3,500	40.3%	6,957
Administration	20	17	85.0%	60
Transport	489	353	72.2%	170
Other	7,860	2,342	29.8%	11,322
Total CAPEX in LW Bogdanka S.A.	377,231	365,257	96.8%	485,370





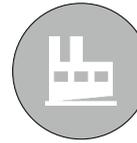
Planned investment tasks in 2018

Maintenance of machinery

Purchase and installation of new machines and devices - the planned purchases will include suspended diesel manoeuvre tractors, combustion tractors, 1,400 mm conveyor belts, air barrages, a roadheading machines and other devices connected with the operating activities of the Company. Plans also include repairs of machinery and equipment, i.e. the wall support system, PF conveyor, JOY conveyor, sprinkler systems for coal-cutting machines, suspended locomotives and others.

New licences

The Company has planned outlays for required documentation sets, analyses, etc. for the "Ostrów", "Cyców" and "Orzechów" deposits.



OPERATIONAL INVESTMENTS LW BOGDANKA S.A.

New workings and upgrade of existing ones

Plans assume the construction of new excavations, mainly longwall galleries, main galleries, cross-headings and the remaining technological and access excavations to enable mining operations in seams 385/2, 389, and 391 in the Bogdanka, Stefanów, Nadrybie and Ostrów Fields. Reconstructions of mining excavations will also be conducted.

Other development investments

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

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

Switching stations and other electromagnetic systems – works including the upgrade of main fans in shaft 1.4, driving system, shaft signalling and other are underway.

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

Administration – the costs of modernising office buildings.

Transport – purchase of additional means of transport.



DEVELOPMENT INVESTMENTS LW BOGDANKA S.A.

Other

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

Environment protection – there are plans to build a pumping station at the RE Żelazny Ditch along with discharge of underground water, a pumping station at the C Ditch in Nadrybie and a pumping station on the Dolna Piwonia river.



OTHER INVESTMENTS LW BOGDANKA S.A.



Licences

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

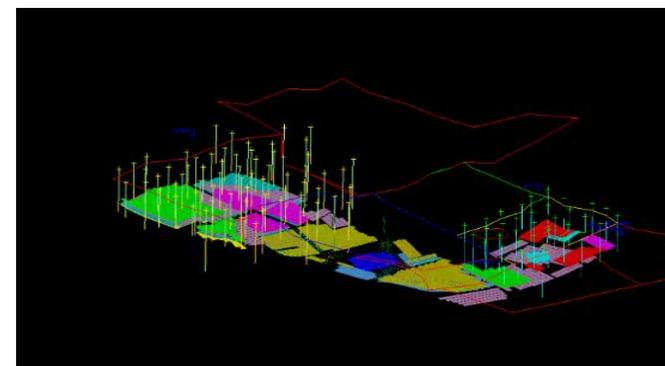
- in the time horizon of the Strategy until 2030, the key areas for the Company include Puchaczów V, Stręczyn (K-3) and Ludwin (Ostrów deposit)
- the Company obtained a mining licence for the Ludwin area in 2017 This will double exploitable resources of the Company
- the Company will continue to analyse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

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

Deposit	Licence No.	Granted on	Expiry date
Bogdanka	5/2009	6 April 2009	31 December 2031
K-3	3/2014	17 June 2014	17 July 2046
Ostrów	6/2017	17 November 2017	31 December 2065

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

Deposit	Licence No.	Granted on	Expiry date
Orzechów	29/2014/p	14 October 2014	14 November 2019



Permit	Number	Issuing authority	Granted on	Expires on
Water permit for special usage of water resources, which covers: a) drainage of the LW Bogdanka S.A. mine in Bogdanka b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river	ŚiR.III.6811/91/07	Lublin Province Governor	31 December 2007	31 December 2017
Permit to conduct mining / building works connected with mining waste dump extension	L.dz.5/512/1/93/AG	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	30 March 1993	-
Permit approving construction design for enlargement of the mining waste neutralization facility in Bogdanka	L.dz.LUB/02/35/56/11/12/MS	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 February 2012	-



Trade agreements and transactions with related entities

Trade agreements

As in previous years, LW Bogdanka S.A. concluded new commercial agreements and, with respect to long-term agreements already in place, negotiated prices and volumes of deliveries for the following years. The above activities resulted in nearly 100% (as at this report date) of the volume designated for sale in 2018 having been covered with agreements. All significant agreements, material from the perspective of LW Bogdanka S.A., as well any changes therein have been notified by the Company in current reports. In 2017, the Company signed a significant annex to change terms of the agreement with Zakłady Azotowe Puławy S.A., as announced by the Company in Current Report No. 24/2017 of 10 October 2018. After the balance-sheet date the significance criterion was met by the conclusion of an annex to amend terms of the agreement with ENERGA Elektrownie Ostrołęka S.A., as announced by the Company in Current Report No. 1/2018 of 3 January 2018, and conclusion of another annex to amend terms of the agreement with Zakłady Azotowe Puławy S.A., as announced by the Company in Current Report No. 6/2018 of 26 February 2018.

Transactions with related entities

In 2017 the Company and its subsidiaries concluded no transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis. The following table presents main agreements in effect in 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"> • heat energy supplies • water supplies and disposal of sewage, maintenance services of central heating, usable warm water and technological heat system devices • sale of thermal coal and electrical power • lease, rental and lending for use • heating of inlet air on shaft 2.2 service and maintenance supervision • rental of premises from Łęczyńska Energetyka for PSG and POS departments • weighing service • cold water supplies and waste water disposal from buildings in Zawadów • service and maintenance of wastewater pump station, sewage disposal installation and network 	<ul style="list-style-type: none"> • performance of mining works and provision of services in the LW Bogdanka S.A. mine on business days • providing explosion works • lease, rental and lending for use • auxiliary works, haulage services • provision of higher-rank mining supervision services in the mining facility • provision of telecommunication and Internet access services 	<ul style="list-style-type: none"> • delivery of elements of steel structures of adventitious equipment • provision of services in the mechanical departments of machine operation underground • performance of works in the LW Bogdanka S.A. mine • supply of energy to the workshop-storage building • repairs of machines and equipment, and their subassemblies • performance of fitting and welding works • delivery of elements of machines, equipment and steel structures • provision of repair and construction services • repairs of transport units • lease, rent, and lending for use • provision of telecommunication and Internet access services • weighing service • performance of works on Saturdays, Sundays and holidays • provision of higher-rank supervision services 	<ul style="list-style-type: none"> • disposal of non-dangerous waste (waste rock) • lease, rent, and lending for use • rental of office space in a multi-functional building

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 31 of the Financial Statements of LW Bogdanka S.A. for 2017.



Information on financial instruments, bonds

Information on derivative financial instruments

As at 31 December 2017, the Company did not hold any open financial instruments.

Bonds

As at 31 December 2017, the Company held 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. on 23 September 2013.

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 Scheme Agreement relating to bond issue the objective of the issue means 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 pages 15 and 17 of the Report.

Assessment of the possibilities of investment plans execution

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

The interest-bearing debt as disclosed in the Company's statement of financial position as at 31 December 2017 (issued bonds) with a total value of PLN 301,911,000 accounted for 10.5% of its equity and 7.3% of the balance-sheet total.

Lease and rental agreements in 2017.

In 2017 total revenue of LW Bogdanka S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 4,769,000 net.

Position of the Management Board of LW Bogdanka regarding the possibility of achieving previously published forecasts for the year in question, in light of the results presented in the separate annual report in relation to the forecast results

LW Bogdanka S.A. did not publish projections of financial results for 2017.



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 CONCLUDED

Agreements concerning the subsidiaries' loans and borrowings

In 2017 the Company had one active loan agreement.

Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 31 December 2017 [PLN '000]	Repayment period
16 December 2016	30 November 2018	mBank S.A.	100,000	WIBOR 1M + margin	-	Overdraft

Information on loans granted

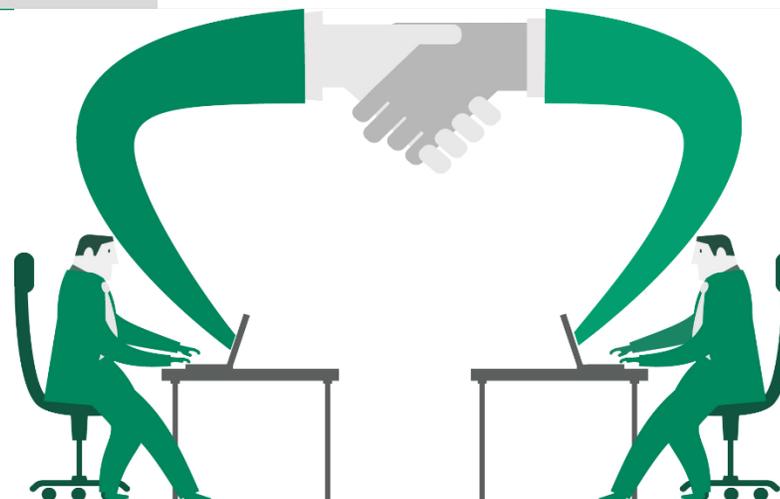
In 2017 the Company did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties and guarantees provided and received

In 2017, the Company did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In 2017, LW Bogdanka S.A. did not provide any guarantees.



Guarantees received by LW Bogdanka S.A.

Security receipt date	Security expiry date	Security provider	Agreement objective	Form of security	Amount of security
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



Thermal coal prices in international market between January 2014 and end of 2017

CIF ARA coal prices

- USD 84.3/tonne - the average coal price (CIF ARA) in 2017, i.e. +40.6% (compared to USD 60/tonne in 2016)
- USD 93.6/tonne - the average coal price (CIF ARA) in Q4 2017, i.e. +9.4% (compared to Q4 2016), comparing Q3 2017 increase by 8.5%
- Between January 2011 and December 2017 the coal price (CIF ARA) dropped by almost 23.3%, but from the moment of rebound (January 2016 – December 2017) the average monthly price went up from USD 46/tonne to USD 95/tonne (+106.5%)

Inventories in ARA ports

- 4.5 million tonnes of coal inventories at the end of December 2017 in ARA ports – decrease by 0.1 million tonnes compared to September 2017 (4.6 million tonnes)

Prices in the world's main ports

- The average coal price FOB Baltic Ports in Q4 2017 amounted to USD 88/tonne – which represents an increase by 8.6% compared to Q3 2017 average (USD 81/tonne); compared to Q4 2016 average (USD 77/tonne) it represents an increase by 14.3%
- The average coal price FOB Baltic Ports in 2017 amounted to USD 79/tonne, i.e. +41.1% (USD 56/tonne) compared to 2016
- Between January 2011 and December 2017 the price FOB BP dropped by almost 28.7%, but from the moment of rebound (January 2016 – December 2017) the price went up from USD 43/tonne to USD 88/tonne (+104.7%)
- Coal prices at the end of 2017 in the other main coal ports in the world:
 - FOB Richard Bay – USD 95/tonne, i.e. up by 16% y/y
 - FOB Newcastle – USD 99/tonne, i.e. up by 5% y/y
 - FOB Puerto Bolivar – USD 86/tonne, i.e. down by 9% y/y

China

- approx. 898 million tonnes of coal were produced in Q4 2017, +1.7% compared to Q3 2017
- approx. 3.5 billion tonnes of coal were produced in 2017, +2.9% compared to 2016 (3.4 billion tonnes)
- imports in 2017 were 271 million tonnes and were higher by approx. 5.9% compared to 2016

USA

- production in 2017 – 701 million tonnes, i.e. +6.1% compared to 2016 (661 million tonnes)
- consumption in 2017 – 653 million tonnes, i.e. -1.5% compared to 2016 (663 million tonnes)
- exports in 2017 – 87.4 million tonnes of hard coal, i.e. +59.8% y/y

Russia

- exports in 2017 (185 million tonnes) increased by 12.8% y/y
- production in 2017 – 408 million tonnes, i.e. +6.3% y/y





Fine thermal coal prices and PSCMI index in Poland’s market between January 2014 and December 2017

Fine thermal coal prices

- in 2017, the average annual price of fine thermal coal for commercial power plants was PLN 9.12 per GJ, the change dynamics was ca. 2.9% y/y
- in Q4 2017, the average price of fine thermal coal for commercial power plants was PLN 9.31 per GJ, comparing to Q3 2017 the price increased by 2.2%; the change dynamics in respect of average prices in Q4 2017 vs. Q4 2016 was ca. 6.3%.
- average heating value of fine coal for commercial power plants was about 21.4 GJ
- price of fine coal for commercial power plants declined by about 11.6% between January 2014 and December 2017.

Prices based on the PSCMI index

- in 2017, the average price based on the PSCMI index was approx. PLN 9.22 per GJ, which compared to average price in 2016 (PLN 8.77 per GJ) represents an increase by approx. 5.1%
- in Q4 2017, the average price based on the PSCMI index was about PLN 9.55 per GJ, the price increased by approx. 2.6% compared to Q3 2017 (PLN 9.31 per GJ), and compared to Q4 2016 (PLN 8.61 per GJ) the PSCMI index price increased by 10.9%





Production, sales and stocks of thermal coal at the end of 2017 in the domestic market

Production of thermal coal in Poland

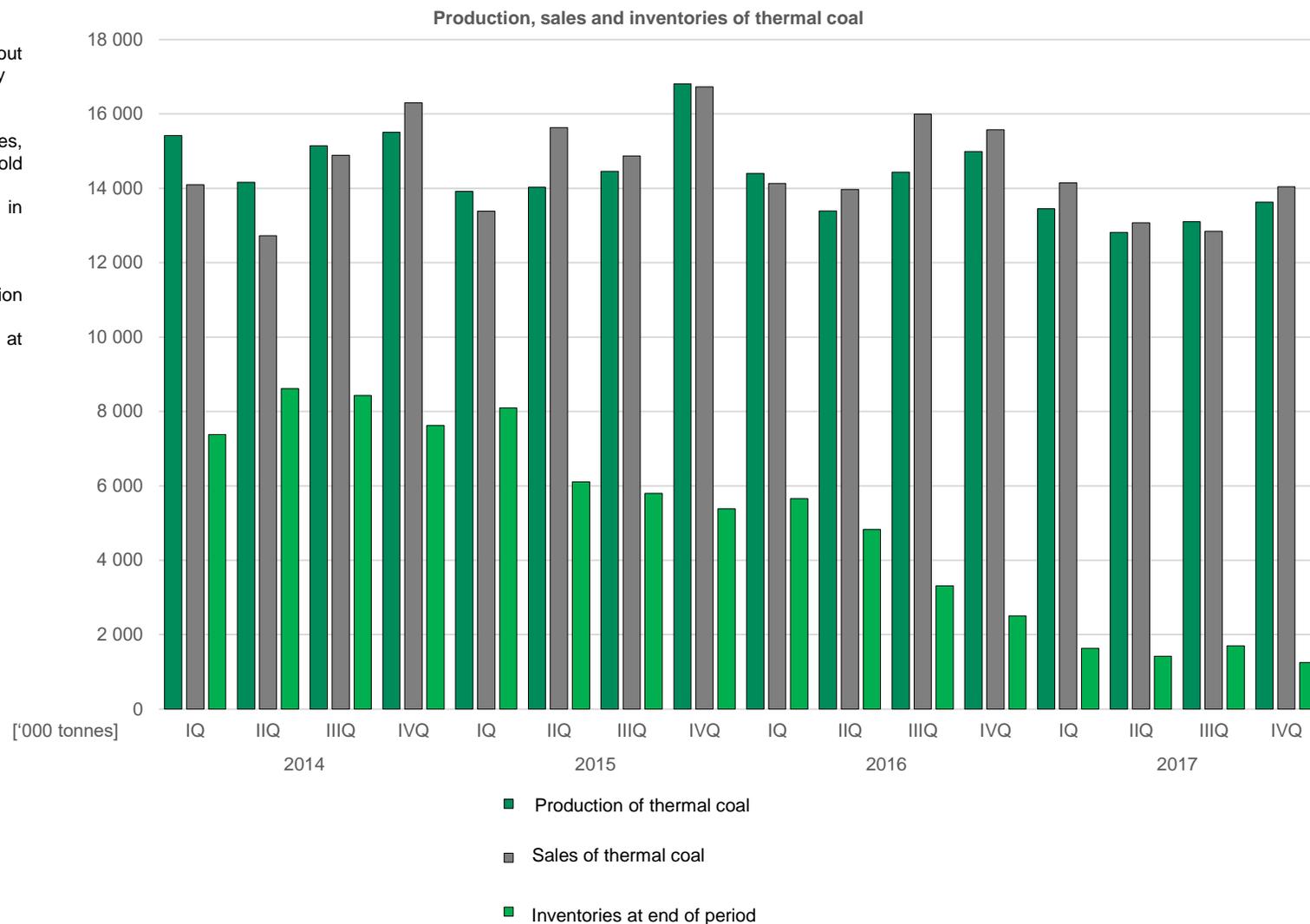
- in 2017, the production of thermal coal amounted to about 53.0 million tonnes, which represents a decline of 7.4% y/y

Sales of thermal coal market in Poland

- sales in 2017 amounted to about 54.1 million tonnes, including about 31.4 million tonnes of thermal fine coal sold to commercial power plants
- sales of thermal coal decreased by about 9.3% in comparison to 2016

Stock of coal in Poland

- the level of coal stocks at the end of 2017 totalled 1.2 million tonnes
- stocks fell by about 50.2% in comparison to the level as at December 2016





Production, sales and stocks of thermal coal at the end of 2017 in the domestic market

Key customers of thermal coal in Poland

Commercial power plants are the main recipients of thermal coal in Poland. They bought about 31.4 million tonnes of thermal fine coal. The most important customers from the commercial power industry are as follows:

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

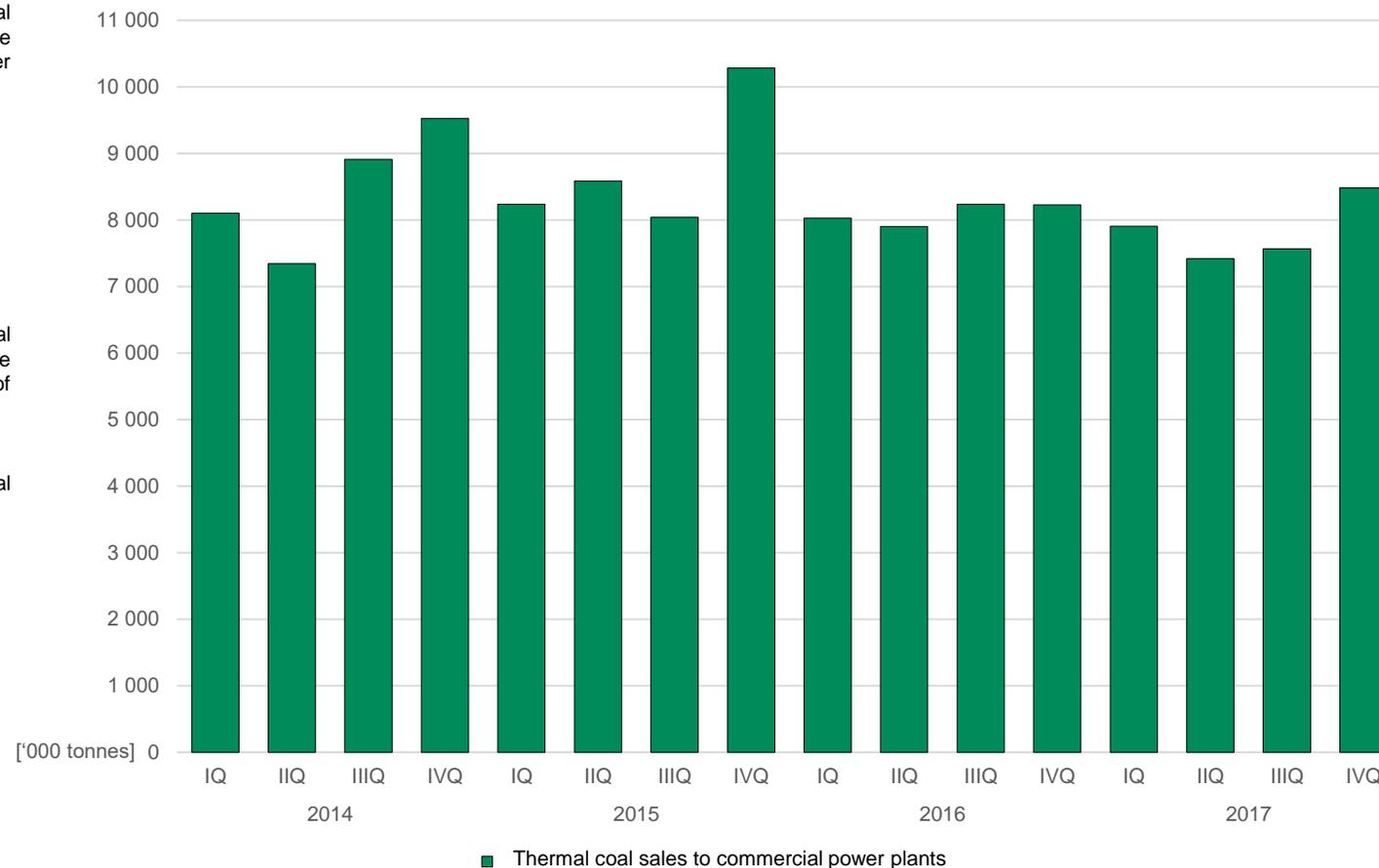
Sales of thermal coal market in Poland

In January-December 2017, about 54.1 million tonnes of thermal coal were sold in Poland. 50.5 million tonnes of coal were delivered to the domestic market, including 42.0 million tonnes of thermal fine coal.

Export of coal

About 6.0 million tonnes of coal were exported, mainly thermal fine coal (approx. 3.4 million tonnes).

Sales of thermal coal to commercial power plants





Electricity generation in Poland

Electricity generation - total

- In 2017, the production of electricity totalled about 165,703 GWh, which represents an increase of 2,297 GWh (+1.4%) versus the same period of 2016

Power generation from coal

- Coal was the main fuel used to produce electricity. In 2017 it was used to produce 131,850 GWh, which was a decrease by 1,624 GWh (-1.2%) compared to 2016.
- In 2017 coal accounted for 79.6% of total electricity production in Poland, but its share in the fuel mix went down by 2.1% in comparison with 2016.

Power generation from hard coal

- Hard coal was used to produce 79,868 GWh of electricity (almost -2.9% less than in 2016)
- In 2017 hard coal experienced the largest drop among the fuel mix components. Its share fell by more than 2.1 p.p. compared to 2016.

Power generation from lignite

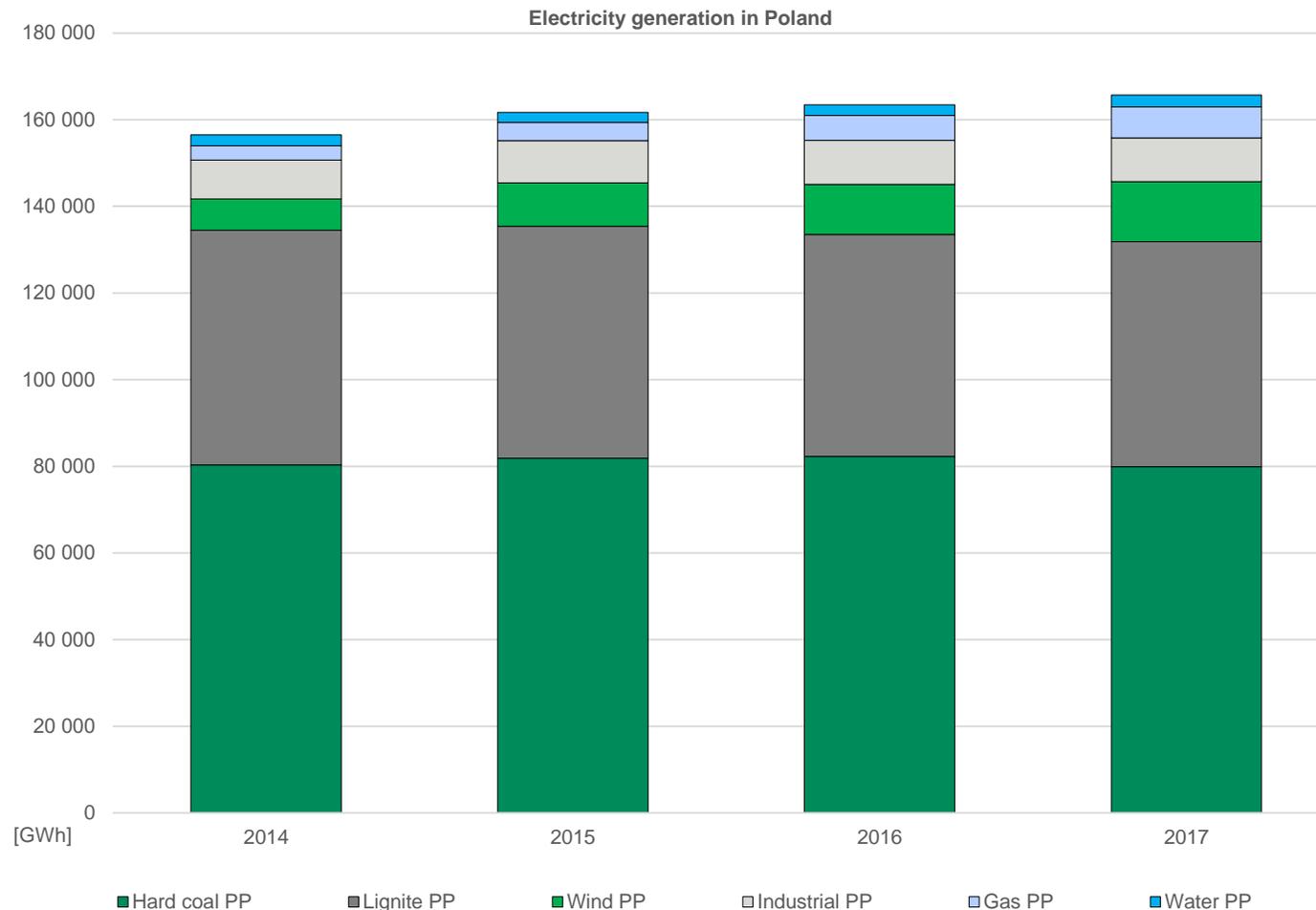
- Lignite was used to produce 51,982 GWh of electricity (1.5% more than in 2016).

Power generation by wind farms

- Wind farms produced 13,855 GWh of electricity, which is a growth of almost 19.2% in comparison with 2016. Wind made up about 8.4% of electricity production.

Power generation by gas-fired power stations

- gas power plants produced 7,173 GWh of electricity, which was an increase of almost 24.2% compared to 2016. Production of energy in gas power plans achieved the highest growth dynamics y/y.



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

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

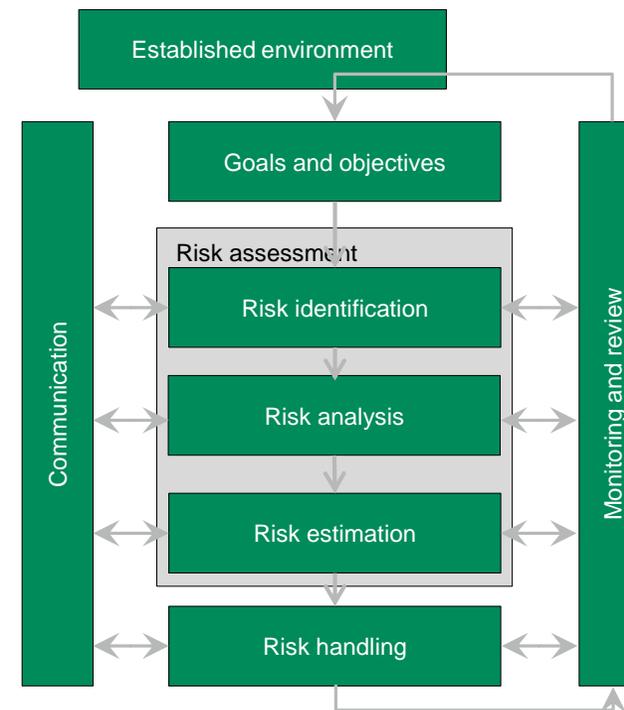
Principal rules, procedures and documents serving as a basis for the risk management system:

- 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.

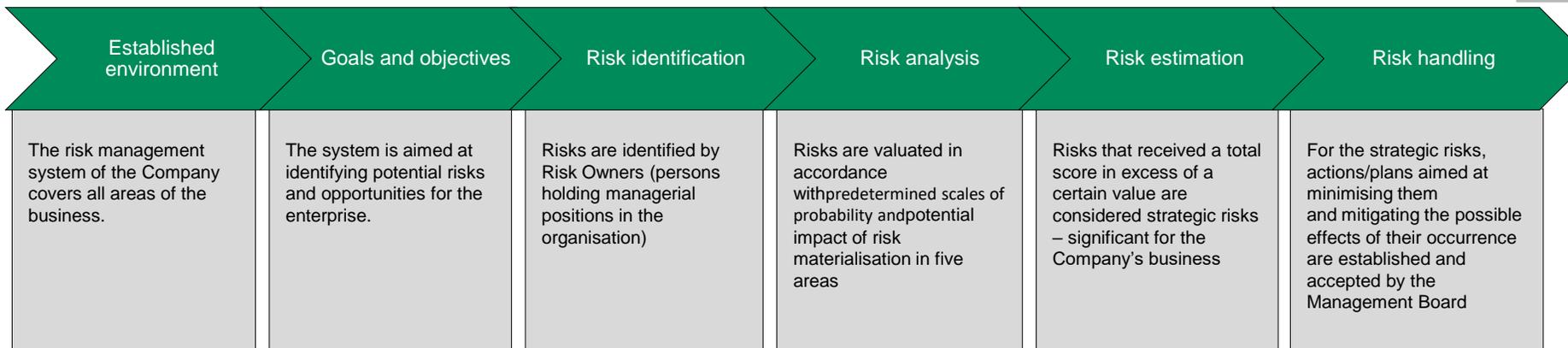
As part of the integration process within the Enea Group, LW Bogdanka S.A., in line with the relevant Group regulations, i.e. the applicable "Secondary Documents", has implemented since January 2018 the ERM system to be applied in the Group companies. As at 31 January 2018 a Company Risk Register was created in accordance with the Company's Methodology. 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 Group (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 of LW Bogdanka S.A. includes:

- the Supervisory Board
- the Management Board
- the Audit Committee
- Managers of organisational units at the Parent – risk owners
- Risk Management Department



Risk management process





Main risks to the Company 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 Company
- 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 Company
- Risk associated with retaining and attracting human resources for LW Bogdanka S.A.
- Key supplier risk
- Risk of unfavourable/inappropriate contractual terms being concluded
- Risk of price fixing by the suppliers

FINANCIAL

- 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



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

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

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

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

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



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

Plans of the Ministry of Economy concerning enterprises operating in the hard coal mining and power engineering sector have a significant influence on the market position of LW Bogdanka S.A. On 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 LW Bogdanka S.A.

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 Company.

Starting from 2016, an increase in prices of thermal coal can be observed on the international market, where high prices of the thermal coal are maintained to date. In 2017 also on the Polish market gradual increase in prices of thermal coal was visible, which resulted from a change in the demand and supply situation on this market and a necessity to increase the level of import. However average prices of thermal coal in Poland in 2017 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 Company is limited, because it sells most of its coal volumes for electrical power generation purposes. Countermeasures: providing excise tax training to the employees, co-operating with reputable tax advisors, requesting tax authorities to issue individual tax rulings, actively participating in the legislation process, introducing provisions to trade contracts that enable the transfer of a potential excise tax burden onto the buyer in case excise tax is imposed on the transaction.



Interest rate risk

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

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

Countermeasures: monitoring and control of debts.



Risk associated with changes in exchange rates

The risk mainly concerns the purchases of specialist equipment which is provided only by foreign manufacturers. It may also occur when coal is exported abroad.

Countermeasures: entering into forward transactions.



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

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

The interest-bearing debt as disclosed in the Company's statement of financial position as at 31 December 2017 (issued bonds) with a total value of PLN 301,911,000 accounted for 10.5% of its equity and 7.3% of the balance-sheet total.

Countermeasures: loan agreements concluded and the Bond Issue Programme.





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

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

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

These include:

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

The consequences may include:

- temporary suspension of operating activities, losses relating to property or financial assets
- work accidents, including fatal accidents
- potential of the Company being held legally liable

Countermeasures:

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

The following factors are also of importance:

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



Risk of restrictive climate policy resulting in changes in the applicable laws

EU's restrictive climate policy leads to lowering the emissions of greenhouse gases, higher sourcing of energy from renewable resources and higher energetic efficiency.

In the Polish energy sector, a great majority of electricity is generated on the basis of coal (hard coal and lignite). The production of electrical or heat energy from coal is connected with significant CO2 emissions. These limitations or introduction of stringent standards or emission limits of CO2, SOx, NOx and other chemical compounds may cause significant difficulties with competitiveness and making decisions on investments in thermal-based production or heat capacities. As a result of the pursued anti-smog policy, new legal regulations are in the legislation process with respect to quality standards applicable to coal sold on the Polish market. In consequence, the above restrictions or amendments in law may cause a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by LW Bogdanka S.A., and in consequence may have a negative impact on its financial results.

Countermeasures:

- active involvement in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers
- monitoring amendments to the applicable laws and analysis of their possible impact on the Company's operations.



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

The maintaining oversupply of the thermal fine coal on the domestic market was finally hindered in the second half of 2016. Currently a reverse trend, i.e. a shortage of thermal fine coal, can be observed on the Polish market; this is supplemented by increased imports of this sort of material. The policy of the Minister of Energy with respect to the development of the Polish power engineering sector, further restructuring of the coal mining sector, lower support to the renewable energy sources and reduced mining in the Silesian mines are factors which are favourable for maintaining demand on the domestic market from the part of the Polish energy sector with the concurrent undersupply on the domestic market. A positive influence on the reduction of demand-related risk is also exerted by higher demand for coal on the part of international markets, in the situation of high thermal coal prices on the international market. 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 Company's operations

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

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

Restriction of the mining capacity may bring the following consequences:

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

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

The issue is discussed in more detail on page 13 of the LWB Directors' Report.

Countermeasures: obtaining in November 2017 of exploration licences in the Ostrów area and further steps to obtain mining licences for the K6-K7 areas.



Technical and technological risk

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

Countermeasures:

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



Risk associated with high costs of technologies applied by the Company

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. Due to global concentration of producers of such machines and equipment, there is a risk of unexpected increase in their prices. This could have impact on the increase of capital expenditure.

There is also a risk of difficulties in accessing unique spare parts to ensure the operating continuity of the machines and equipment. 2015 saw the commencement of mining from seam 391 which is located about 100 m below seam 382.

Along with the depth increases the difficulty of maintaining the excavations (rock mass pressures increase), the natural temperature of rock, as well as certain other dangers. This may altogether increase coal mining costs.

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



Risk of IT systems malfunctioning

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

Countermeasures:

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



Key customer risk

Vast majority of the thermal coal produced by the Company is sold to Enea Group power plants 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 long-term agreements with key customers ensuring purchases for at least 5 years.

The Company also continues its efforts to attract new customers. 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 Company. 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.

Countermeasures: monitoring of the coal market situation and price negotiations renewed each year with customers.



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 – Piława) has been underway and is scheduled for completion at the end of 2019; 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 Company's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW Bogdanka S.A. payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2017, trade debtors and other current accounts receivable of the Company accounted for 5.0% of the balance-sheet total and 11.7% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 83.1%.

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 there are four trade union organisations at the Company associating 72.2% of the employees. The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW Bogdanka S.A. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW Bogdanka S.A.

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 of the Company

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



Key supplier risk

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

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



Risk of unfavourable/inappropriate contractual terms being concluded

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

Countermeasures:

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

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

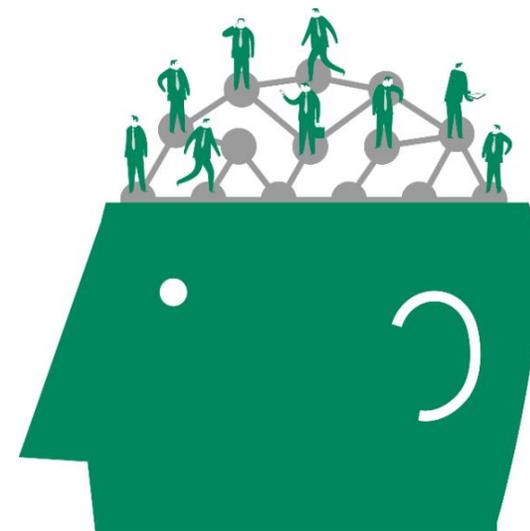


Risk of price fixing by the suppliers

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

Countermeasures:

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





Financial risks and risks associated with environmental protection

Liquidity risk

Important factors in the assessment of insolvency risk are:

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

The Company's cash at hand as at 31 December 2017 amounted to PLN 416,827,000. The current liquidity ratio for the Company amounted to 1.08, and quick liquidity ratio: 0.99.

In 2017, net flows from operating activities generated by LW Bogdanka S.A. stood at a level of PLN 595,773,000 with investment outlays of PLN -354,121,000 (CFFO PLN 241,652,000).

Countermeasures: long- and short-term analyses and projections to help determine the Company's cash needs.

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

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



Insurance risk

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

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

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

Interruption type.



Risk associated with reclamation and mining damage

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

Countermeasures: repair works, protecting buildings against the results of mining damage, reimbursing the costs incurred by investors in connection with adjusting new buildings under construction on the mining land to the current conditions, gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.



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

The operations of LW Bogdanka S.A. have a significant impact on the environment. Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques). In particular with respect to the following:

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

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



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

In connection with the extension of the mining area the amount of generated extraction waste significantly increased. It is estimated that the storage capacity of the waste yard (i.e. a facility used as a mining waste dump) is sufficient for up to 4 years of storing.

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

Countermeasures: The Company performs works connected with increasing the height of the existing mining waste utilisation facility. Further, it continues works on acquiring new land to execute the next phases of extension of the yard.

The Company is taking intense actions related to the recovery and management of mining waste.



Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land).

All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas.

There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. These restrictions may require higher investment expenditure and therefore may affect the financial result.

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





Risk associated with proceedings and legal environment

Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken.

Countermeasures:

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

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



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

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

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



Countermeasures:

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

For more information refer to the Financial Statements of LW Bogdanka S.A., Note 18.



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.

Countermeasures:

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



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

The provisions of law in Poland are frequently changed. Changes also affect the interpretation of law and the way it is applied. Changes in interpretation of tax regulations are particularly frequent. There is no consistency in the practice of tax authorities or in case law relating to taxation.

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



Risk of violating the stock exchange disclosure requirements

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

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





Work conditions and technical risks

Working conditions

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

Natural risks

The following natural threats occur in the mine:

- Methane hazard



- Water hazard



- Coal dust explosion hazard



- Fire hazard



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

None of the above natural threats occurred in 2017.

Technical risks

In 2017, on average 132 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present.

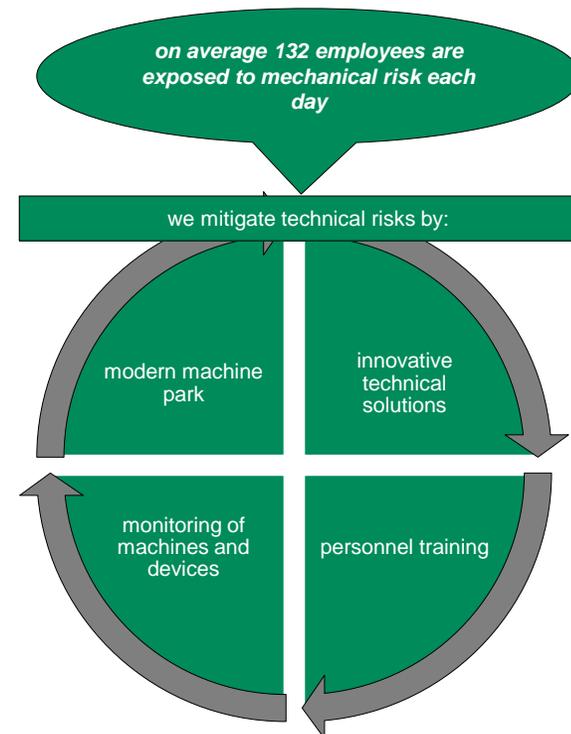
Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components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

Particularly dangerous machinery includes but is not limited to:

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

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

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





Harmful and nuisance factors

Harmful and nuisance factors

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

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

The internal procedure covers the following measurements:

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

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

Work accidents

In 2017, there were 99 accidents at work: 1 fatal accident and 98 accidents causing temporary incapacity to work. The number of accidents and basic accident rates are presented in the table.

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

	Underground					
	Dustiness	Noise	Vibrations	Microclimate	Chemical agents	Other
2014	1,796	1,553	142	809	-	-
2015	1,821	1,139	38	435	-	-
2016	1,616	1,027	17	431	-	-
2017	1,484	1,021	6	381	-	-

Number of accidents and accident rates at the Company in 2014–2017

	2014	2015	2016	2017
Number of accidents – total	82	81	81	99
including: fatal	-	-	-	1
including: causing serious injury	-	3	1	-
frequency rate (per 1,000 employees)	16.7	17.2	18.0	22.3
frequency rate (per 100,000 workdays)	8.1	8.2	8.7	11.6

Work accident costs at the Company in 2014–2017

	Number of accidents	including:		Benefits paid [PLN '000]
		fatal	major	
2014	82	-	-	275.0 (60 injured)
2015	81	-	3	370.1 (73 injured)
2016	81	-	1	283.0 (57 accidents and 1 occupational disease)
2017	99	1	-	489.7 (74 accidents and 1 occupational disease)

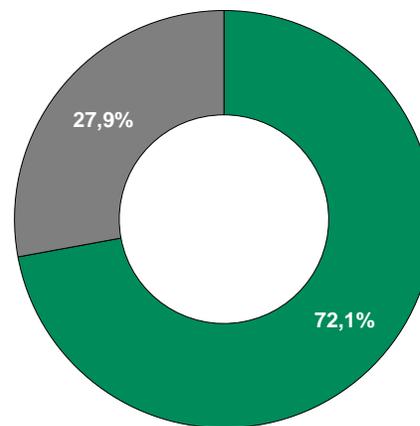




Workforce changes

- As at the end of 2017, the Company employed 4,470.2 people, which represents a 0.2% increase compared to 4,461.6 people at the end of 2016,
- underground and surface employees make up 72.1% and 27.9% of the head count, respectively. Due to the nature of its business, the Company mainly employs men - they account for 94.5% of the head count (women - 5.5%),
- in terms of age, the dominant group of employees is composed of people between 30 and 40 years of age (44.2%),
- the largest group is made of persons with secondary education. Their share in total employment at the end of December 2017 was 56.7 %,
- 1,725.6 employees (38.6%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

Detailed information on employment is presented in the charts below.



Employees underground and on the surface - as at 31 December 2017

■ Underground employees
■ Surface employees

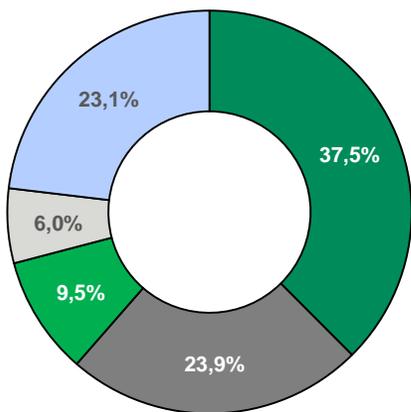
Workforce changes - FTJ





Workforce structure at the Company (translated into FTJs)

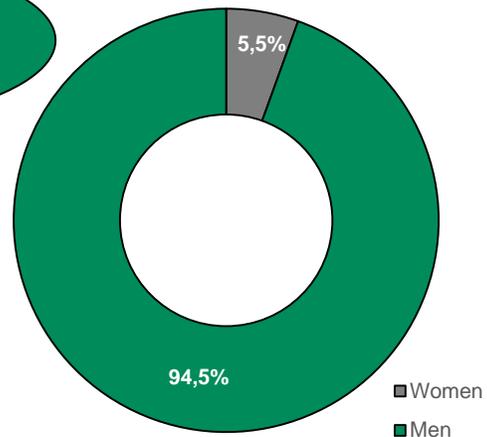
FTJs by length of service - as at 31 December 2017



The Company's key resource are the people who identify themselves with it and its mission.

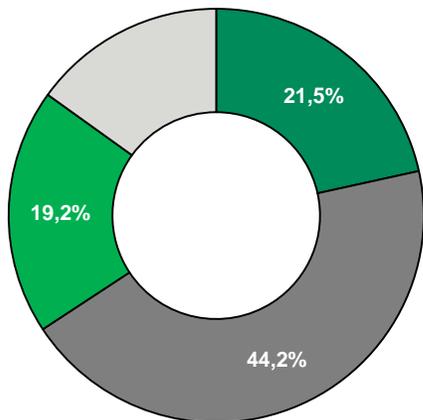
- Less than 10 years
- 10 to 15 years
- 15 to 20 years
- 20 to 25 years

FTJs by sex - as at 31 December 2017



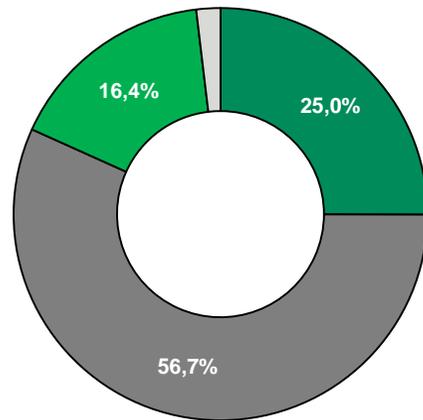
- Women
- Men

FTJs by age - as at 31 December 2017



- Less than 30 years
- 30-40 years
- 40-50 years

FTJs by education - as at 31 December 2017



- Higher
- Secondary
- Vocational
- Primary

HR policy implemented in 2017

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

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

The occurrence of a generation gap is prevented by:

- generation Change Programmes - Stage I was implemented: Voluntary Redundancy Programme at the Company
- LiGa programme under which promising Company employees are covered by an individual development plan
- collaboration with educational institutions, organisation of apprenticeships and internships
- building the image of a desirable employer and acquiring the best candidates.

Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2017, the Company organised internal and external training. Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their knowledge.



Average monthly remuneration

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

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

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

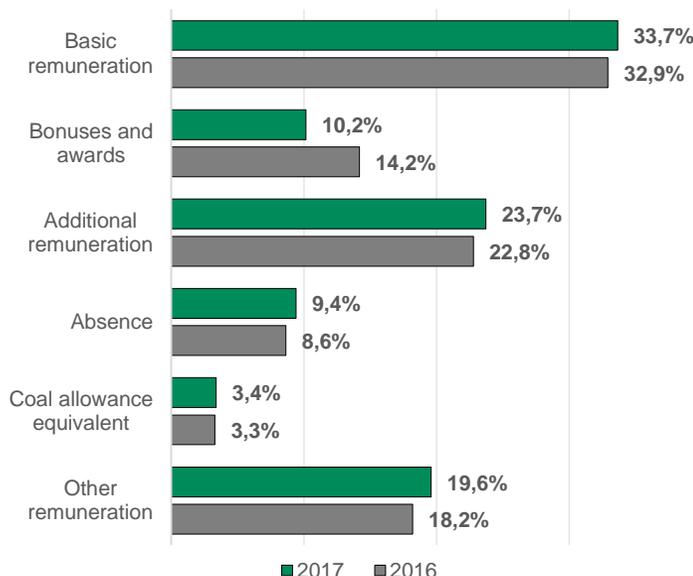
[PLN]	2016	2017	Change
Total staff	7,344	7,641	4.0%

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

In 2017 the payroll fund was used in accordance with Additional Protocol No. 57 to the Collective Bargaining Agreement which provides for the following:

- rise in basic salary by 2.5% from 1 January 2017
- monthly bonus settled on the basis of:
 - the degree of compliance with monthly production targets
 - sale of commercial coal
 - the average sale price achieved
 - the degree of compliance with the Company's cost budget for individual periods.

Structure of remuneration in 2016 and 2017 was as follows:



Other material changes in the remuneration area arising in 2017 in relation to 2016:

- long service awards – increase by 18.2%
- severance pay for retirees and pensioners – increase by 62.0%.

The changes in the above components were driven primarily by the pursuance of the Voluntary Redundancy Programme.

The average monthly remuneration in 2017 amounted to PLN 7,641 and was higher by 2.0% from the value agreed with the social party under the agreement of 28 March 2017. Under the above agreement the average remuneration at the Company was set at a level of PLN 7,488.

Generation Change Programme

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

The aim of the Programme is to take early steps to prevent the adverse consequences of natural economic and demographic changes, and implement systemwide solutions to this end. The effects of the undertaken measures are expected to be observed after two or three years.

In 2017, 141 employees took advantage of the Voluntary Redundancy Programme. Total cost of compensation, pays upon retirement due to old age and jubilee awards paid out under the Programme amounted to PLN 8,524,000.

As a next step in the generation change, the "Mining Leaders - LiGa" programme was implemented and introduced for implementation at the beginning of December 2017. Under the programme, which is in line with the Company's strategy, the employees will be provided with a possibility to increase their professional qualifications and develop interpersonal skills.





Marketing activities completed at LW Bogdanka S.A.

Types of promotional activities:

- sports sponsoring – primarily treated as a tool of the mine’s impact on the local environment, and in particular on the group of people who like sport and are involved in sport and sport-related activities. Given the tradition and a local nature of those activities, they were – as in previous years – carried out by cooperation with:
 - a) main beneficiaries of this budget, i.e. Górnik Łęczna S.A., which manages tournaments of the first football team that competes in Ekstraklasa (Polish premiere football league), in the spring round of the 2016/2017 season and in the 1st League (in the autumn round of the 2017/2018 season)
 - b) MGKS Gwarek Łęczna, which is a boxing club representing boxers who have a good success rate in boxing tournaments on both national and international level. Both clubs accomplish their mission, which is to promote sports rivalry among young people. Górnik Łęczna and a foundation established for this purpose run a Sports Academy, and MGKS Gwarek Łęczna trains boxers by organising youth group training. In exchange for the sponsorship, both entities provide LW Bogdanka S.A. with promotional and advertising services specified in agreements.
 - c) GKS Górnik Łęczna (an Association), which – due to sponsorship cooperation with the mine – was able to acquire funds for modernisation of lights in the main pitch in the Łęczna stadium.
- social and cultural sponsorship – understood as all activities related to the provision of promotional services to the mine by the sponsored entities, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. The most recognisable event which the Bogdanka mine has sponsored for several years is Carnival of Magicians.
- promotion and CSR – promotional mix for the Bogdanka corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company’s corporate image and products. It involves the direct production, creation and publication/broadcast of informative and promotional materials through various communication channels and all other marketing activities related to the sales promotion. These tasks are executed in-house by the Company’s

marketing and PR units and in cooperation with CSR units and the Company’s sales department.

The rationale behind the marketing activities undertaken:

Achieving social aims:

- building of a social conviction that the changes related to the development of the mine have positive dimension and will not be pursued to the detriment of the local communities and other stakeholders which are important for the Company; conveying a clear message that the Company is an important and praised employer
- maintaining good relations with employees, which translates into continued high performance of work provided by them
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy
- activating the community of the Lublin region into sport, social and cultural events
- building the Company’s image as a socially responsible organisation which takes care of its employees and their families.



Achieving marketing objectives:

- continued creation of Company image as a leader of the mining industry on the Polish and European market. Increasing the value of the Company’s brand by sponsored entities carrying out various advertising activities. Obtaining high media coverage whose value in terms of advertising is higher than the funds engaged in sponsorship.
- confirming credibility in the eyes of current and future business partners and investors.
- enhancing the Company’s image by associating it with the energy and modern image of sport. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines.
- promoting the image of the Company and its shareholders through sponsorship.
- conducting appropriate public relations for the Company on both the national and regional level. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;

Advertising budget [in PLN ‘000]	Execution
Promotion, CSR	477.6
Sports sponsorship	5,564.5
Social/cultural sponsorship	186.6
Total	6,228.7





Marketing activities completed at LW Bogdanka S.A.

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

Promotional activities for the Bogdanka corporate brand focused mainly on the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's promotion was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business, which a part of ENEA (building the success dimension of the brand), as well as a reliable employer within the Lublin area, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates (building the social dimension of the brand). The fundamental PR operations conducted in 2017 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies.

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

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

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

The Company's promotional budget for 2017 was also used to finance projects that correspond to the CSR concept. Such

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

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



Donations

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

In its operations, apart from achieving positive economic results, LW Bogdanka S.A. has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. The Company also sponsors sports and cultural activities. This philosophy benefits the Company and also helps create a positive image for it as a company which invests time and energy in non-commercial activities and, in particular, stimulates local initiative. The donations made by the Company in 2017 amounted to PLN 395,000.





Court and out of court proceedings

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

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

Arrangement proceedings

In 2017, the Company was not a party to arrangement proceedings.

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

Commercial lawsuits

Lawsuits against the Company

- A lawsuit regarding complaint filed by Dębieszko Sp. z o.o. with registered office in Czerwionka – Leszczyny requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice, X Commercial Division, of 16 July 2008. The value of litigation is PLN 14.4 million. By virtue of its judgement of 22 January 2015, the Regional Court in Gliwice dismissed the complaint requesting resumption of the proceedings ended with a final and legally binding judgment in default of the Regional Court in Gliwice of 16 July 2008. The Defendant filed an appeal against the above judgement. The Company submitted a response to the appeal. By virtue of its judgement of 26 November 2015, the Court of Appeals in Katowice partly amended the judgement of the court of first instance by quashing the said judgement with respect to the amount of PLN 531,000, and dismissed the appeal of Dębieszko sp. z o.o. in the remaining scope. On 30 March 2016 the Company received the cassation appeal from this judgement. On 11 April 2016 the Company filed a reply to the above cassation appeal. 26 April 2016. The Court set the date of the cassation hearing for 10 January 2017. By virtue of a judgement of 19 June 2017 the Regional Court in Lublin dismissed the action in full. The Company received the copy of the judgement with substantiation. The Claimant, A. Kabut, appealed against the aforesaid judgement. The Company submitted a response to the appeal. The case is at the stage of recognition before the Court of Appeal in Lublin.
- A case brought by PMKSiUG PEMUG S.A. in Katowice in

which the Company is requested to reach settlement regarding the payment of PLN 1.1 million. The case is pending before the District Court in Lublin Wschód in Lublin with registered office in Świdnik, VIII Commercial Division, case No. VIII GCo 1374/14. The requested payment of PLN 1.1 million is the fee for the performance of works provided for in agreement No. 554/IB/2010 of 29 April 2010. The Company set off the above amount with reciprocal, due and payable claims that the Company had against PMKSiUG PEMUG S.A. in Katowice on account of liquidated damages. On the session held on 11 February 2018 no settlement was signed.

- A lawsuit filed by Wit Kotnarowski, Stanisław Stachowicz and Janusz Chmielewski for payment of PLN 32 million, pending before Regional Court I Civil Division, case no. I C 942/13. The indicated amount is an aggregate amount of remuneration to be calculated separately for each Defendant. By the date of this Report, court pleadings presenting the final positions of the parties to the dispute were drawn up and submitted, and an opinion prepared by an expert patent attorney was issued. The Company requested that the patent be invalidated in proceedings before the Patent Office, and therefore, in the case at hand, the Company requested that the action be dismissed in its entirety. On 22 May 2015 the Patent Office refused to invalidate the patent. Moreover, the Company deduces that the mine does not use a solution equivalent to the one which is protected under the Patent, which would provide grounds for dismissing the action in its entirety. The first hearing was held on 8 May 2014, and was of a purely organisational nature. Witnesses of both parties testified at the hearings held on 18 and 20 November 2014, and on 22 September 2015. On 22 September 2015 the Court also decided on allowing evidence in the form of an opinion issued by a court-appointed patent expert. On 24 March 2016 the opinion was prepared. Both parties submitted pleadings with their reservations regarding the above opinion. The hearing finally took place on 6 December 2016, and on 4 July 2017 the Court allowed a testimony given by an expert. The hearing was scheduled for 5 September 2017, and was followed by an exchange of pleadings regarding the scope of experts' opinions. On 1 December 2017 the Regional Court in Lublin admitted an evidence in the form of opinions prepared by the AGH University of Science and Technology in Krakow and the Silesian University of Technology. Further proceedings are conditional upon the abovementioned opinions.
- A case brought by a receiver of the WONAM Group in

liquidation bankruptcy (*w upadłości likwidacyjnej*) for calling to a settlement attempt, regarding the payment of PLN 3.5 million, is pending before the District Court Lublin Wschód. The claims of the receiver of the WONAM Group refer to a payment of a fee for a Consortium of companies, of which the WONAM Group made part, for works performed under an agreement for making a central air conditioning installation for cooling underground mining excavations. As far as the claims included in the abovementioned demand are concerned, the Company filed statements on setting-off these claims with a direct payment made by the Company of the fee to the subcontractors of the Consortium, of which the WONAM Group made part, and with claims for liquidated damages charged by the Company to the Consortium for a failure to perform the agreement. On the session held on 3 October 2017 no settlement was signed.

Lawsuits filed by the Company

- A case brought by the Company against Minova Ekochem S.A., A.Weeber sp. z o.o., DSI Schaum Chemie sp. z o.o. for calling to a settlement attempt and scheduling a meeting with a view to reaching settlements, in the case for payment of compensation for damage inflicted to the Company as a result of actions identified as a practice restricting competition (including price collusion, market sharing and bid rigging), to the amount of PLN 18.2 million (a case against DSI Schaum Chemie sp. z o.o. was moved to recognition by the District Court in Tychy, on 2 March 2017 no settlement was signed; a case against A.Weeber sp. z o.o. was moved to recognition by the District Court in Rybnik, on 17 March 2017 no settlement was signed; a case against Mlnova Ekochem S.A. was moved to recognition by the District Court Katowice-Wschód, 10 March 2017 no settlement was signed).
- A case brought by the Company for calling to a settlement attempt, against: Paulina Koza-Bator Interstalex, Olga Koza Przedsiębiorstwo Wielobranżowe "Montet" and STAL-PRODUKT Sp. jawna Kornelia Zaława Dariusz Zaława, for a joint and several payment to the Company of liquidated damages in the aggregate amount of PLN 3.4 million charged by the Company to the abovementioned suppliers acting as a Consortium, for delays in the supplies of goods under an agreement dated 29 January 2014. On 9 April 2017 a request was directed to a District Court in Częstochowa. The date of the session was scheduled for 20 June 2017, and



Court and out of court proceedings

no settlement was signed. In a letter dated 27 November 2017 the Company provided the abovementioned Consortium members with a set-off statement regarding the due claim available to the Company under the provisions on joint and several liability under Article 366 of the Civil Code and Article 141 of the Public Procurement Law, payable in the amount of PLN 2.1 million, to be composed of:

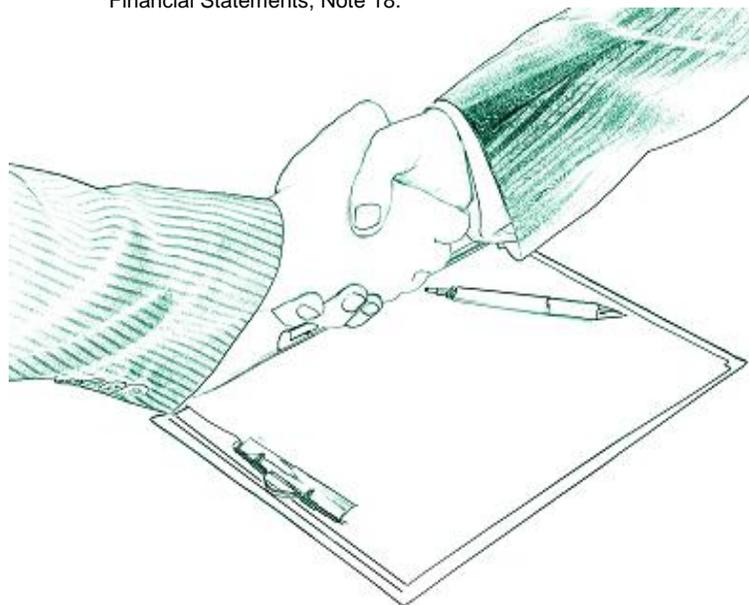
- PLN 2.0 million – a portion of the claim (PLN 3.4 million) for the abovementioned liquidated damages
- PLN 0.1 million – statutory default interest for the delayed payment of the amount PLN 2.0 million, accounting for a part of the liquidated damages referred to above, under claims available to the Consortium.

Administrative cases

- The Company is a party to administrative proceedings concerning real property tax on underground excavations located in the territory of the neighbouring municipalities and communes. While preparing statements for real property tax, the Company, like other mining companies in Poland, does not take into account the value of mining excavations for the purpose of calculating this tax. For more information refer to the Financial Statements, Note 18.
- In connection with the Company's request dated 19 December 2013 submitted to the Minister of Environment, a procedure was initiated to grant the Company a licence for hard coal mining in the Lublin K-6, K-7 deposit. The administrative proceedings ended with a decision of the Minister of Environment of 5 September 2014, which was upheld by a decision of 5 November 2014 following reconsideration of the matter. The licencing authority refused to grant the Company the mining licence by reason of conflict with public interest. In accordance with the decision of the Minister of Environment, the conflict with public interest occurs because another entity, namely a company under the business name PDCo, has a licence for exploration of the Lublin K-6, K-7 hard coal deposit (licence No. 23/2012/p of 31 July 2012). The Company filed with the Provincial Administrative Court in Warsaw the appeal against the aforesaid decision refusing to grant the licence. The decision refusing to grant the Company a mining licence was issued with a breach of provisions regarding the administrative

procedure and substantial provisions of 9 June 2011 – Geological and Mining Law. The Minister of the Environment failed to satisfy the requirement under the Geological and Mining Law to consult the decision of whether or not to grant the licence with the Minister of Economy, and therefore, deprived the cooperating authority of the right to give its opinion on the question of whether it is contrary to the public interest to grant the licence to the Company. The above non-compliance made it impossible for the licencing authority to comprehensively assess whether such interest existed. Having heard the case initiated with the Company's complaint, the Provincial Administrative Court in Warsaw, by virtue of its judgement of 16 March 2016, dismissed the complaint in full. On 2 June 2016, the Company filed a cassation appeal with the Supreme Administrative Court from the above judgement. The date of the hearing before the Supreme Administrative Court has not been set yet.

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



Key proceedings regarding non property rights

In 2017, the Company was not a party in proceedings regarding non-property rights.

Arbitration proceedings

On 10 June 2016 the Arbitration Court at the National Chamber of Commerce in Warsaw received a motion filed by Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. against the Company for a payment of PLN 16,274,000 as a refund of monies paid under a bank guarantee issued by the Consortium in connection with a performance of a construction work agreement entered into by the Company and the Consortium on 29 June 2010. Instigating action with respect to the above claim is a consequence of prior challenging by the Company against the competence of the Arbitration Court with respect to five claims under the Agreement. By virtue of its decision of 18 January 2016 the Arbitration Court found itself competent solely with respect to a claim for a refund of monies paid under a bank guarantee. The Company consistently challenged the claim in full. Following an exchange of pleadings and filing, by both parties, of expert opinions, on 19-21 June 2017 an arbitration hearing took place, after which the parties filed pleadings summarising the arbitration hearing and pleadings regarding costs. By virtue of an award, on 29 September 2017 the Arbitration Court dismissed the Consortium's claim in full and awarded an amount of 1,428,000 to be paid to the Company by the Consortium as a reimbursement of costs of the arbitration proceedings. The awarded amount related to the arbitration proceedings was then set-off by the Consortium with its claim to the Company regarding a return of amounts retained by the Company for the Consortium liability (if any) for the defects in the extended mechanical coal processing plant. In October 2017, the Company filed to the Court of Appeal in Lublin a motion to accept the arbitration award, and at the end of November 2017 the Consortium filed a complaint for revoking this judgement. None of these two cases has been resolved so far.



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

Information on the auditor responsible for auditing the report

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

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

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

The table contains information on fees payable to the entity auditing the statements in 2015-2017.

The agreement was entered into by and between LW Bogdanka S.A. and the auditor for three years and is effective until 2017.

On 5 January 2018, the Supervisory Board of LW Bogdanka S.A. adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o.; for more information on this subject see Note 33 of the Financial Statements for 2017.

Basis of preparation of the Annual Separate Financial Statements

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

The financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value and share-based payments, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005. The financial statements were prepared using the same accounting principles for the current and comparative periods. Detailed basis of preparation of the Annual Separate Financial Statements are described in the Annual Separate Financial Statements for 2017.

Differences between financial results and projected results for 2017 published earlier

In 2017, LW Bogdanka S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2017.

Deloitte Polska sp. z o.o. sp.k. [PLN '000]	2015	2016	2017
• audit of the annual financial statements	66	66	66
• review of financial statements	44	44	44
• other attestation services	-	20	25
• other certifying services (verification of ratios)	39	36	11
Total	149	166	146





3. Financial standing



Coal production and sales

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

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

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

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

In 2017 the Company had two bond issue programmes. On 10 March 2017 the Management Board of LW Bogdanka S.A. signed an annex to an agreement on the Bond Issue Program of 30 June 2014, concluded with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego (2nd Programme Agreement) Due to above, on 30 March 2017, the Company redeemed bonds worth PLN 300,000,000. As per the schedule, it plans to redeem the remaining bonds (1st Programme Agreement) by the end of 2018 worth in total PLN 300,000,000.

Coal production and sales

In the fourth quarter of 2017, the production of commercial coal in the Company decreased by 0.8% compared to the same period of 2016 and amounted to 2,338,000 tonnes.

In the period from January to December 2017, the production of commercial coal was 9,050,000 tonnes, i.e. it was more by 0.1% than in the same period of 2016.

Production of commercial coal

['000 tonnes]	Q4 2016	Q4 2017	Change	Change %
Production of commercial coal	2,356	2,338	-18	-0.8%

['000 tonnes]	2016	2017	Change	Change %
Production of commercial coal	9,038	9,050	12	0.1%

Structure of commercial coal production

[%]	Q4 2016	Q4 2017	2016	2017
Fine coal	97.9%	97.5%	98.5%	97.8%
Nut coal	1.3%	1.1%	0.8%	0.9%
Pea coal	0.8%	1.4%	0.7%	1.3%
Total	100.0%	100.0%	100.0%	100.0%

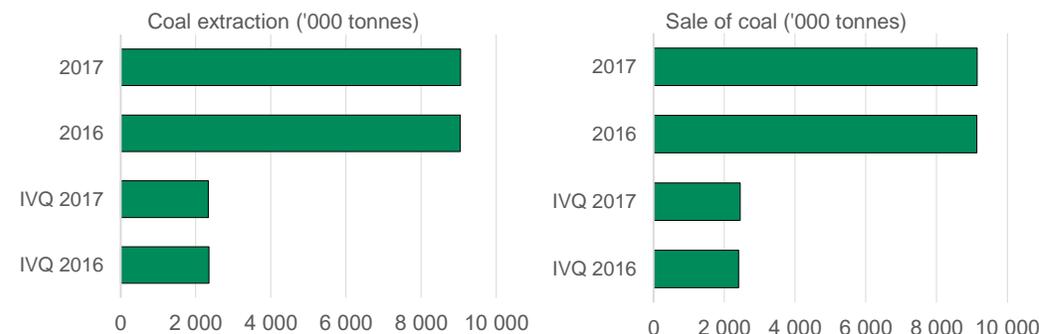
In analysed periods the structure of production did not change significantly – thermal fine coal remained the dominant assortment (its share in the production was in the range of approx. 98-99%).

Sale of commercial coal at the Company

['000 tonnes]	Q4 2016	Q4 2017	Change	Change %
Sale of commercial coal	2,402	2,453	51	2.1%

['000 tonnes]	2016	2017	Change	Change %
Sale of commercial coal	9,141	9,151	10	0.1%

In Q4 2017, the sales of coal increased by 2.1% compared to Q4 2016. In the period from January to December 2017, the sales of commercial coal amounted to 9,151,000 tonnes, i.e. more by 0.1% than in the same period of 2016.



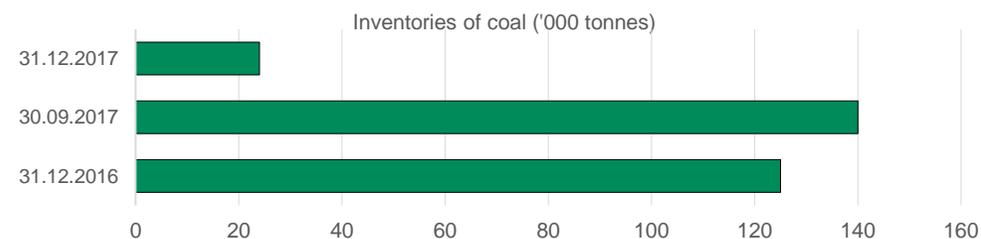


Inventories of coal, revenue and key customers

Inventories

As at the end of Q4 2017, the inventories of coal at the Parent amounted to 24,000 tonnes which means a drop by 101,000 tonnes compared to 31 December 2017. The level of coal inventories as presented for the end of Q4 2017 corresponds to approx. one day of commercial coal production (on the basis of an average 12-month daily production).

['000 tonnes]	31 December 2016	30 September 2017	31 December 2017	Change [%] 31 Dec. 2017 / 31 Dec. 2016	Change [%] 31 Dec. 2017 / 30 Sep. 2017
Inventories of coal	125	140	24	-80.8%	-82.9%



Revenue and key customers

In Q4 2017, LW Bogdanka S.A. generated revenue in the amount of PLN 472,557,000, which represents an increase by 0.4% compared to Q4 2016. The revenue for January-December 2017 amounted to PLN 1,777,273,000 compared to PLN 1,781,776,000 in the analogous period of 2016, which means a drop in revenue by 0.3% y/y.

The main source of revenue on sales of LW Bogdanka S.A. is the production and sale of thermal coal. In each of the compared reporting periods this activity generates approx. 97% of the LW Bogdanka S.A.'s revenue.

In the separate annual financial statements for 2017 published by LW Bogdanka S.A., for presentation purposes, data concerning revenue on coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the values indicated in the income statement for the period from 1 January to 31 December 2017 was adjusted by PLN 63,887,000, while in the same period of the previous year – by PLN 70,519,000.

More than 90% of coal sales (in terms of value) in the period from 1 January to 31 December 2017 was effected between LW Bogdanka S.A. and Enea Wytwarzanie sp. z o.o., Enea Elektrownia Połaniec S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty Zakłady Azotowe Puławy S.A. and PGE Paliwa sp. z o.o. In 2016 the share of the above customers in revenue of the sales of coal was similar.

Among the abovementioned customers the 10% of share in revenue was held by:

- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 56% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group - approx. 22% share in the revenue

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2016	Q4 2017	Change	Change %	2016	2017	Change	Change %
Sale of coal	453,976	459,500	5,524	1.2%	1,730,611	1,731,604	993	0.1%
Other activities	14,042	9,530	-4,512	-32.1%	39,537	32,457	-7,080	-17.9%
Sale of goods and materials	2,597	3,527	930	35.8%	11,628	13,212	1,584	13.6%
Total	470,615	472,557	1,942	0.4%	1,781,776	1,777,273	-4,503	-0.3%

In Q4 2017 revenue on other operations were PLN 9,530,000 (2.0% of total revenue), compared to PLN 14,042,000 (3.0% of revenue) in the analogous period of 2016 (-32.1%). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by LW Bogdanka S.A. for the benefit of some customers (this item had the largest impact on the decrease in revenue in that group)
- revenue on industrial services provided to companies performing works contracted by the Company
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in Q4 2017 slightly changed over Q4 2016 and was 0.8% (up by 0.2 p.p. y/y). In the whole 2017 the sale of goods and materials was recorded at a similar level than that in 2016.

[%]	Q4 2016	Q4 2017	2016	2017
Sale of coal	96.5%	97.2%	97.1%	97.4%
Other activities	3.0%	2.0%	2.2%	1.8%
Sale of goods and materials	0.5%	0.8%	0.7%	0.8%
Total	100.0%	100.0%	100.0%	100.0%



Suppliers, costs in LW Bogdanka S.A.

Geographical structure of revenue

The Company operates primarily in Poland. In Q4 2017 and in the whole 2017 the exports of goods and products included primarily sale of coal to the Ukrainian market. In 2017 the share of exports in the total revenue was 1.4% (PLN 25,564,000), while in 2016 the figure was 1.8% (PLN 31,225,000).

[PLN '000]	Q4 2016	Structure	Q4 2017	Structure	2016	Structure	2017	Structure
Domestic sales	442,300	94.0%	471,974	99.9%	1,750,551	98.2%	1,751,709	98.6%
Foreign sales	28,315	6.0%	583	0.1%	31,225	1.8%	25,564	1.4%
Total	470,615	100.0%	472,557	100.0%	1,781,776	100.0%	1,777,273	100.0%

Suppliers

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

The principal suppliers for LW Bogdanka S.A. include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January and 31 December 2017, the value of the turnover with any supplier did not exceed 10% of the Company's total revenue.

Costs

Costs of LW Bogdanka are presented in as costs by type and costs by function. The records of costs by function cover all outlays related to factors and production means used in the Company's operations. The costs incurred, in accordance with the formula presented, reflect the use of a given 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 Company 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

Q4 2017

In Q4 2017, LW Bogdanka S.A. incurred costs by type in the amount of PLN 572,483,000 (PLN +59,794,000 y/y), i.e. by 11.7% higher than in Q4 2016. The increase in costs recorded in Q4 2017 was primarily influenced by higher value of employee benefits and, to a lesser extent, depreciation, outsourced services and the consumption of materials and energy.

The value of depreciation went up by 4.9% (to PLN 93,678,000) – the value of depreciation of non-current assets went up, whereas the natural depreciation fell down. The drop in depreciation is a consequence of a slower progress of the work in walls.

Total cost of materials and energy consumption went up by 25.8% compared to Q4 2016, and totalled PLN 140,814,000. In the period under analysis, the cost of materials used rose (the scope of preparatory works was higher - 7.8 km of galleries were completed in Q4 2017, compared to 6.6 km y/y in the previous year, which represents an increase of 18.2%).

The value of external services in Q4 2017 went up from PLN 115,984,000 in Q4 2016 to PLN 118,058,000 (1.8%). In the period under analysis an increase in costs of repair of mining machinery and equipment was recorded with a concurrent drop in transport services (primarily rail transport of coal).

In 2017, compared to 2016, the value of employee benefits increased by PLN 36,285,000. In the period under analysis the Company repurchased from the employees and their heirs the right to a "retirement" coal allowance and disbursed severance pays under the Voluntary Redundancy Programme implemented at the Company. At the same time, average employment y/y in LW Bogdanka S.A. dropped.

The value of taxes, fees and charges slightly went up in Q4 2017 to PLN 8,957,000 from PLN 8,577,000 in Q4 2016, however the increase referred only to the real property tax and service charges as payments to the National Fund for the Disabled went down. The value of other costs decreased from PLN 14,269,000 (Q4 2016) to 1,101,000 (Q4 2017) – overestimated basis effect.

Impact of material one-off events on the results of Q4 2017

At the end of 2015, the Company identified external premises showing the likelihood of impairment on non-current assets held and for this reason it recognised in the books an impairment loss in the total value of PLN 624,772,000. At the end of 2017, given the occurrence of significant changes in the market, the Management Board of the Company conducted an analysis of further existence of the premises indicating a possible impairment loss on non-current assets, which were the reason behind the recognition of the impairment loss at the end of 2015. Following the analysis it has been found that currently such premises no longer exist. The total amount of reversed impairment losses which affected the financial result of the period equalled 495,982,000. This matter is described in detail in Note 43 of the Company's Financial Statements for 2017.

On 17 October 2017, the Management Board of the Company signed with the trade unions active at the Company an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of signing the agreement, the existing retirees and pensioners have lost their right to free coal. As a result of the agreement the right to free coal after retirement was also lost by the current employees who in exchange have received an appropriate compensation. The total effect of all operations connected with coal allowances and the agreement signed in this regard on the result of the Company amounted to circa PLN 114,931,000.

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 -183,435,000 for Q4 2017. As compared to the previous year, it is lower by PLN 576,430,000 (with a simultaneous y/y increase by 2.1% in the amount of coal sold).



Costs in LW Bogdanka S.A.

Costs by type

[PLN '000]	Q4 2016	Q4 2017	Change	2016	2017	Change
Net production [in '000 tonnes]	2,356	2,338	-0.8%	9,038	9,050	0.1%
Sales [in '000 tonnes]	2,402	2,453	2.1%	9,141	9,151	0.1%
Amortisation	89,320	93,678	4.9%	352,958	347,997	-1.4%
Materials and energy consumption	111,939	140,814	25.8%	423,911	494,927	16.8%
External services	115,984	118,058	1.8%	403,590	418,889	3.8%
Employee benefits	172,235	208,520	21.1%	535,648	562,352	5.0%
Entertainment and advertising costs	365	1,355	271.2%	6,443	6,633	2.9%
Taxes, fees and charges	8,577	8,957	4.4%	37,205	38,183	2.6%
Other costs	14,269	1,101	-92.3%	28,170	6,944	-75.3%
Total costs by type	512,689	572,483	11.7%	1,787,925	1,875,925	4.9%
Cost of own work	-54,415	-78,699	44.6%	-195,056	-284,243	45.7%
Accruals and deferrals	-71,689	-48,101	-32.9%	-11,699	6,978	-
Value of coal obtained from excavations	-21,445	-18,533	-13.6%	-70,519	-63,887	-9.4%
Provisions and other presentation adjustments between costs by type and by function	17,346	-627,279	-	23,595	-622,641	-
Total production cost	382,486	-200,129	-	1,534,246	912,132	-40.5%
Change in inventory of products	7,923	13,167	66.2%	15,477	11,571	-25.2%
Costs of goods and materials sold	2,586	3,527	36.4%	11,432	12,820	12.1%
Own cost of sales, including:	392,995	-183,435	-	1,561,155	936,523	-40.0%
Costs of products, goods and materials sold	355,913	-160,632	-	1,431,941	861,576	-39.8%
Selling costs	14,327	11,249	-21.5%	43,637	41,999	-3.8%
Administrative expenses	22,755	-34,052	-	85,577	32,948	-61.5%

2017

In 2017, LW Bogdanka S.A. incurred costs in the amount of PLN 1,875,925,000, i.e. by 4.9% (PLN 88,000,000) higher than in the same period of 2016. The increase in costs recorded in the analysed period was largely influenced by the increase in consumption of materials and energy, higher cost of outsourced services and employee benefits.

The total value of costs of materials and energy consumption increased by 16.8% compared to 2016 and amounted to PLN 494,927,000. In the period under analysis, the cost of materials used rose (which was a consequence of higher scope of preparatory works - 29.3 km of galleries were completed in 2017, compared to 23.8 km in 2016, which represents an increase of 23.1%).

Compared to 2016, the value of outsourced services in 2017 went up from PLN 403,590,000 to PLN 418,889,000 (+3.8%). In the period under analysis, increases were recorded in the costs of drilling and mining services (made as part of preparatory works), costs of repairs and maintenance of mining machinery and equipment, and concurrent drops in the costs of transport services and waste management.

In 2017, compared to 2016, the value of employee benefits increased by PLN 26,704,000. In the period under analysis, an increase was primarily recorded in other employee benefits (cost of repurchase of coal allowances). As at 31 December 2017, the number of staff employed amounted to 4,471 persons and was higher by 9 people compared to 31 December 2016.

The value of depreciation and amortisation went down by 1.4% (to PLN 347,997,000) – the value of depreciation of non-current assets went up, whereas the natural depreciation fell down. A drop in depreciation of non-current assets is primarily a consequence of a slower progress of works in the walls and a structure change (higher progress in the cutting machine walls and a slower one in the ploughing walls).

The value of taxes, fees and charges paid in 2017 went up to PLN 38,183,000 from PLN 37,205,000 in 2016 – the exploitation fee and real property tax as well as payments to the National Fund for the Disabled were higher.

The value of other costs decreased from PLN 28,170,000 (2016) to 6,944,000 (2017) – overestimated basis effect.

Impact of material one-off events on the results of 2017

At the end of 2015, the Company identified external premises showing the likelihood of impairment on non-current assets held and for this reason it recognised in the books an impairment loss in the total value of PLN 624,772,000. At the end of 2017, considering significant changes in the market, the Management Board of the Company conducted an analysis of further existence of the premises indicating a possible impairment losses on non-current assets, which were the reason of making the impairment loss at the end of 2015. Following the analysis it has been found that currently such premises no longer exist. The total amount of reversed impairment losses which affected the financial result of the period equalled 495,982,000.

On 17 October 2017, the Management Board of the Company signed with the trade unions active at the Company an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of signing the agreement, the existing retirees and pensioners have lost their right to free coal. As a result of the agreement the right to free coal after retirement was also lost by the current employees who in exchange have received an appropriate compensation. The total effect of all operations connected with coal allowances and the agreement signed in this regard on the result of the Company amounted to circa PLN 114,931,000.

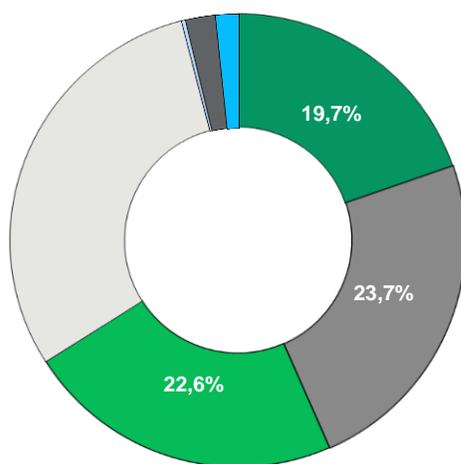
The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the four quarters of 2017 amounting to PLN 936,523,000. As compared to the previous year, it is lower by 40.0% (with a simultaneous y/y increase by 0.1% in the amount of coal sold).



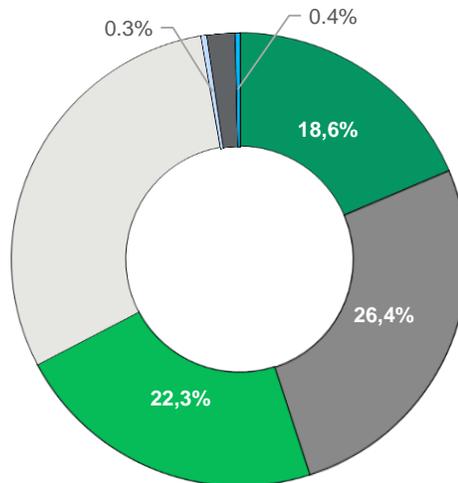
Costs in LW Bogdanka S.A.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In 2017 (compared to the same period of the previous year) the share of depreciation and amortisation costs went down to 18.6%. A slight decrease was noted with respect to the share of external services costs (to 22.3%). The costs of employee benefits remained unchanged, but the share of the consumption of materials and energy increased to 26.4%. Between 1 January 2017 and 31 December 2017 the consumption of materials and energy as well as employee benefits accounted for almost 79% of costs, while in the comparable period of 2016 it was almost 76% of total costs of the Company.

Structure of costs by type in 2016



Structure of costs by type in 2017



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

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

Costs by function

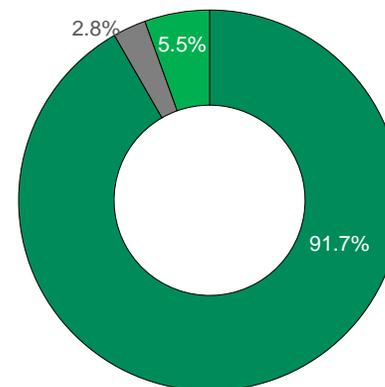
The cost of own production sold (by function) in Q4 2017 – in relation to the recognition of one-off events – had a negative value of PLN -183,435,000 and was lower by PLN 576,430,000 than the cost incurred in Q4 2016.

The cost of own production sold (by function) in 2017 – in relation to the recognition of one-off events – had the value of PLN 936,523,000 and was lower by 40% (PLN 624,632,000) than the cost incurred in 2016.

Costs by function

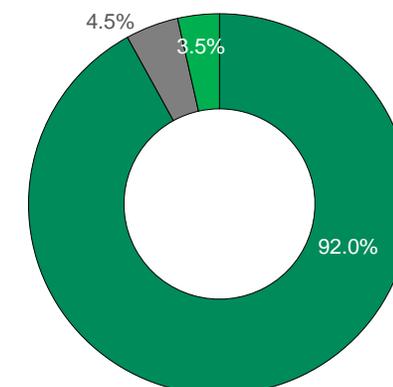
[PLN '000]	Q4 2016	Q4 2017	Change	2016	2017	Change
Net production [in '000 tonnes]	2,356	2,338	-0.8%	9,038	9,050	0.1%
Sales [in '000 tonnes]	2,402	2,453	2.1%	9,141	9,151	0.1%
Costs of products, goods and materials sold	355,913	-160,632	-	1,431,941	861,576	-39.8%
Selling costs	14,327	11,249	-21.5%	43,637	41,999	-3.8%
Administrative expenses	22,755	-34,052	-	85,577	32,948	-61.5%
Own cost of production sold	392,995	-183,435	-	1,561,155	936,523	-40.0%

Structure of costs by function 2016



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

Structure of costs by function 2017



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

Provisions

Provisions in LW Bogdanka S.A.

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2016	As at 30 Jun. 2017	As at 31 Dec. 2017	Change in Q4 2017/ Q4 2016	Change in Q4 2017/ Q2 2017
Employee provisions	263,476	300,064	153,562	-41.7%	-48.8%
Provision for real property tax	32,456	37,560	42,353	30.5%	12.8%
Provision for the mine closure costs and land reclamation	117,423	117,420	114,448	-2.5%	-2.5%
Mining damage	4,440	4,241	4,434	-0.1%	4.6%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	20,042	20,685	21,340	6.5%	3.2%
Other	13,663	12,470	17,417	27.5%	39.7%
Total	451,500	492,440	353,554	-21.7%	-28.2%

The total provisions as at 31 December 2017 amounted to PLN 353,554,000, which means a decrease by 21.7% compared to the value as at 31 December 2016 and a drop by 28.2% compared to 30 June 2017.

Comparing to 30 June 2017, employee provisions dropped by 48.8% and amounted to PLN 153,562,000 as at 31 December 2017. On 17 October 2017, the Management Board of the Company signed with the trade unions active at the Company an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. Given the above, the coal allowance provisions were released and a provision for additional severance pay for retirees and pensioners was created. For more information please refer to Note 17 of the Financial Statements of LW Bogdanka S.A. for 2017.

Changes in provisions

[PLN '000]	Change in Q4 2016	Change in Q4 2017	Change in Q4 2017/ Q4 2016	Change in 2016	Change in 2017	Change 2017/2016
Employee provisions	8,431	-140,501	-	15,479	-109,914	-
Provision for real property tax	2,192	2,414	10.1%	8,575	9,897	15.4%
Provision for the mine closure costs and land reclamation	-6,798	-2,588	-61.9%	-12,756	-2,975	-76.7%
Mining damage	-3,363	822	-	-4,057	-6	-99.9%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	330	325	-1.5%	1,315	1,298	-1.3%
Other	1,470	4,462	203.5%	-16,244	3,754	-
Total	2,262	-135,066	-	-7,688	-97,946	1,174.0%

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

[PLN '000]	Change of provisions in Q4 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 provisions	-140,501	-128,389	1,174	-	-3,468	-9,818
Provision for real property tax	2,414	1,942	472	-	-	-
Provision for the mine closure costs and land reclamation	-2,588	1,135	1,113	-4,836	-	-
Mining damage	822	1,795	-	-	-	-973
Provision for Social Insurance Institution (ZUS) claim for accident contributions	325	-	325	-	-	-
Other	4,462	4,341	69	-	-	52
Total	-135,066	-119,176	3,153	-4,836	-3,468	-10,739

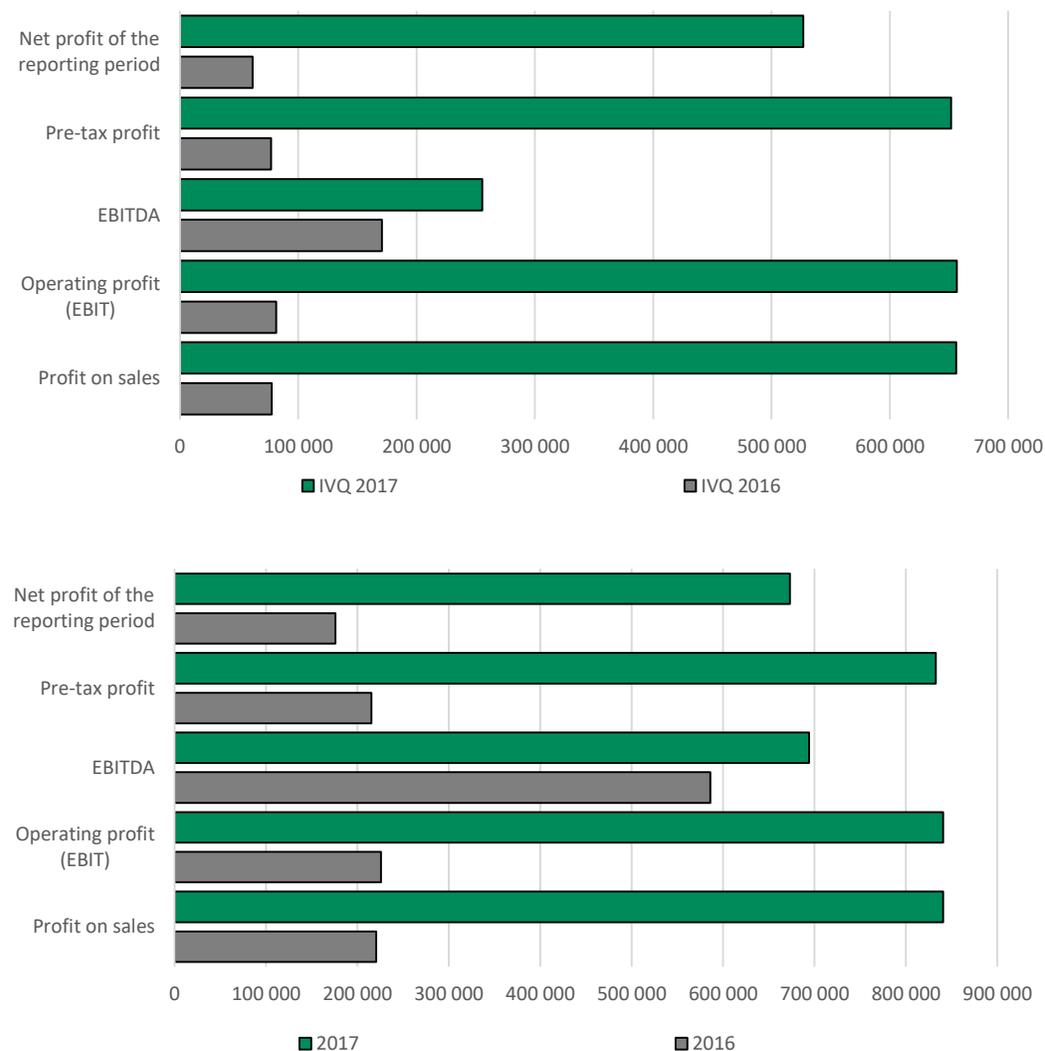
[PLN '000]	Change of provisions in 2017	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	-109,914	-101,563	6,777	-	30,008	-45,136
Provision for real property tax	9,897	6,896	3,001	-	-	-
Provision for the mine closure costs and land reclamation	-2,975	2,406	3,758	-9,139	-	-
Mining damage	-6	1,795	-	-	-	-1,801
Provision for Social Insurance Institution (ZUS) claim for accident contributions	1,298	-	1,298	-	-	-
Other	3,754	5,562	293	-	-	-2,101
Total	-97,946	-84,904	15,127	-9,139	30,008	-49,038

Financial highlights

Financial highlights of LW Bogdanka S.A. Analysis of the consolidated income statement

[PLN '000]	Q4 2016	Q4 2017	Change	2016	2017	Change
Revenue	470,615	472,557	0.4%	1,781,776	1,777,273	-0.3%
Costs of products, goods and materials sold, selling and administrative expenses	392,995	-183,435	-	1,561,155	936,523	-40.0%
Profit on sales	77,620	655,992	745.1%	220,621	840,750	281.1%
Gross sales margin	16.5%	138.8%	122.3 p.p.	12.4%	47.3%	34.9 p.p.
Other income	4,686	2,855	-39.1%	16,710	4,088	-75.5%
Other costs	259	561	116.6%	2,037	1,115	-45.3%
Net operating profit	82,047	658,286	702.3%	235,294	843,723	258.6%
Other net losses	-623	-1,696	172.2%	-9,485	-2,815	-70.3%
Operating profit (EBIT)	81,424	656,590	706.4%	225,809	840,908	272.4%
EBIT margin	17.3%	138.9%	121.6 p.p.	12.7%	47.3%	34.6 p.p.
EBITDA	170,744	255,570	49.7%	586,119	694,207	18.4%
EBITDA margin	36.3%	54.1%	17.8 p.p.	32.9%	39.1%	6.2 p.p.
Finance income	2,335	2,784	19.2%	16,307	16,725	2.6%
Finance costs	6,748	7,771	15.2%	26,921	24,829	-7.8%
Profit before taxation	77,011	651,603	746.1%	215,195	832,804	287.0%
Pre-tax profit margin	16.4%	137.9%	121.5 p.p.	12.1%	46.9%	34.8 p.p.
Income tax	15,619	124,857	699.4%	39,299	159,523	305.9%
Net profit for the financial year	61,392	526,746	758.0%	175,896	673,281	282.8%
Net sales margin	13.0%	111.5%	98.5 p.p.	9.9%	37.9%	28.0 p.p.

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





Financial highlights

Revenue

The value of revenue for Q4 2017 increased by 0.4% compared to the same period of the previous year and amounted to PLN 472,557,000. In the whole 2017 the Company generated revenue at a level of PLN 1,777,273,000 compared to PLN 1,781,776,000 in 2016 (down by 0.3%).

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

In Q4 2017 the costs of products, goods and material sold plus selling and administrative expenses went down by 576,430,000 compared by the same period of the previous year and showed a negative figure of PLN 183,435,000, which was mainly a result of one-off events, i.e. a reversal of an impairment loss made by the Company in 2017 of PLN 495,982,000 and a release of a coal allowance provision of PLN 114,931,000. In 2017 the cost of products, goods and materials sold as well as selling cost and administrative expenses dropped from PLN 1,561,155,000 to PLN 936,523,000 (for a reason analogous to that observed in Q4).

Profit on sales

As a result of one-off events described above, in Q4 2017 profit on sales amounted to PLN 655,992,000, while in the same period of 2016 it was PLN 77,620,000. The Company closed 2017 with a profit on sales in the amount of PLN 840,750,000, versus PLN 220,621,000 in 2016.

Other income

In Q4 2017 other income amounted to PLN 2,961,000 compared to PLN 4,854,000 a year before (of which a dominant item was the release of impairment losses). The dominant item in the value for 2017 (PLN 4,088,000) is the release of impairment losses (PLN 2,054,000), while in 2016 it was the release of unused provision for claims (PLN 10,125,000) and damages received (PLN 4,927,000).

Other net losses

In Q4 2017 other net losses amounted to PLN 1,696,000, as compared to PLN 623,000 in the same period of the prior year, i.e. they increased by PLN 1,073,000. Data for 2017 show a drop in other net losses (y/y) by PLN 6,670,000, to a total amount of PLN 2,815,000. Both in 2017 and 2016 the dominant item was the impairment loss of construction in progress of PLN 1,284,000 and PLN 7,352,000, respectively.

EBIT

Operating result in Q4 2017 amounted to PLN 656,590,000. EBIT margin in the fourth quarter of 2017 was 138.9%, i.e. it was higher by 121.6 p.p. than in the fourth quarter of the previous year. EBIT margin for the whole 2017 was higher by 34.6 p.p. compared to the same period of 2016, and accounted for 47.3% (the 2017 profit/loss includes a positive impact of the released impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).

EBITDA

EBITDA in Q4 2017 increased by 49.7% compared to Q4 2016 and amounted to PLN 255,570,000. EBITDA margin in Q4 2017 equalled 54.1%, which shows an increase compared to the same period of 2016.

In 2017 the Company achieved an EBITDA margin of 39.1%, i.e. 6.2 p.p. more year on year compared to 2016 (while the EBITDA amount increased by 18.4% in the analysed period). In 2017, EBITDA amounted to PLN 694,207,000, compared to PLN 586,119,000 in 2016.

Finance income

Finance income in Q4 2017 amounted to PLN 2,784,000 (+19.2%). In the whole 2017 finance income was PLN 19,725,000 (+2.6% y/y). In 2017 a dominant item were dividends received (PLN 9,778,000) and other interest income on deposits (PLN 5,026,000).

Finance costs

In Q4 2017 finance costs were higher by 15.2% than the costs in the same period of 2016, and amounted to PLN 7,771,000. The finance cost for the whole 2017 amounted to PLN 24,829,000 compared to PLN 26,921,000 in 2016 (decrease by 7.8%). As at 31 December 2017 total debt of the Company amounted to PLN 301,911,000, compared to PLN 600,080,000 as at 31 December 2016. The amount of capitalised finance costs also went up.

Profit before taxation

In Q4 2017 the Company generated pre-tax profit of PLN 651,603,000 compared to PLN 77,011 in Q4 2016.

The pre-tax profit for the whole 2017 was PLN 832,804,000 compared to PLN 215,195,000 for the same period of 2016 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).

Net profit for the financial year

In Q4 2017 the Company generated net profit of PLN 526,746,000 compared to PLN 61,392,000 in Q4 2016 (the impact on the 2017 profit/loss of the released impairment loss amounts to PLN 401,745,000).

The Company's net profit for four quarters of 2017 was PLN 673,281,000 compared to PLN 175,896,000 for the same period of 2016 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).

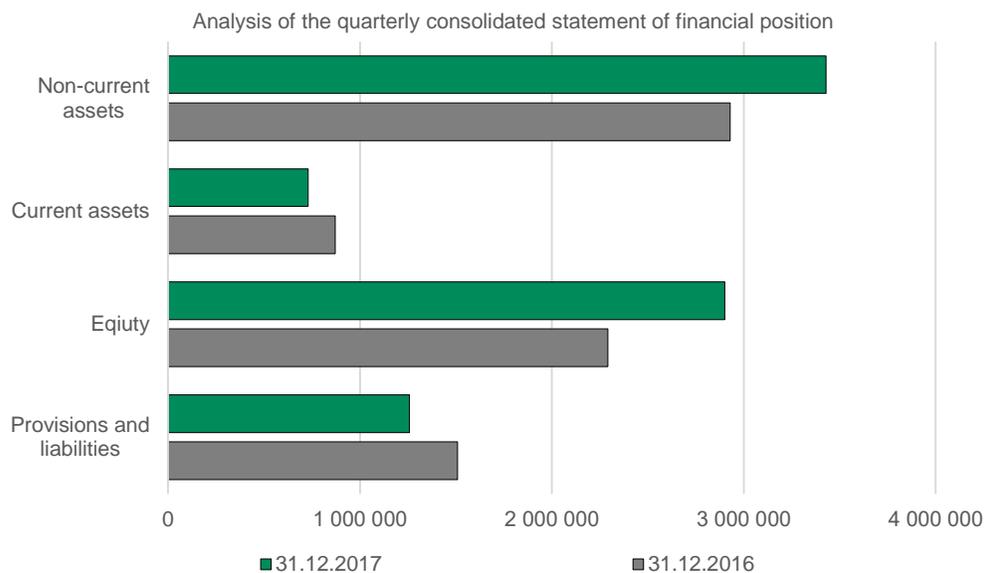
Balance sheet

Balance sheet

Selected financial data

[PLN '000]	31 December 2016	31 December 2017	Change
Total assets	3,748,429	4,116,044	9.8%
Return on Assets (ROA)*	4.8%	17.5%	12.7 p.p.
Non-current assets	2,908,459	3,408,184	17.2%
Current assets	839,970	707,860	-15.7%
Equity	2,269,666	2,884,627	27.1%
Return on Equity (ROE)*	7.9%	25.7%	17.8 p.p.
Provisions and liabilities	1,478,763	1,231,417	-16.7%

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



Assets

The balance-sheet total as at 31 December 2017 went up to PLN 4,116,044,000 (i.e. by PLN 367,615,000) compared to the value as at 31 December 2016, with non-current assets going up by PLN 499,725,000 and current assets going down by PLN 132,110,000. Within current assets, the value of inventories went down by 13.3%, trade and other receivables by 14.7%, with cash and cash equivalents by 18.8%.

As at 31 December 2017 the ROA figure was 17.5%. The reason for a significant rise in profitability in 2017 was the described above, reversed impairment loss on the property, plant and equipment and intangible assets and the released the provision for coal allowance for retirees.



Equity and liabilities

The equity went up by 27.1%. It was mainly caused by recognising net total income in the amount of PLN 648,975,000 for 2017.

Provisions and liabilities went down by 16.7% compared to the value as at 31 December 2016, with current liabilities going down by 0.4% (decrease in liabilities on employee benefits), and non-current liabilities going down by 33.2% (including a drop in liabilities on bond issue and liabilities on employee benefits). Due to the reversal of the impairment loss of assets and the release of coal allowance provision, the value of liabilities on account of the deferred tax has increased at the Company by PLN 149,307,000 to PLN 205,233,000 as at 31 December 2017.

At 31 December 2017 an increase in ROE was recorded (by 17.8 p.p.) compared to the end of 2016. The value of the ratio as at 31 December 2017 was 25.7% compared to 7.9% as at 31 December 2016.



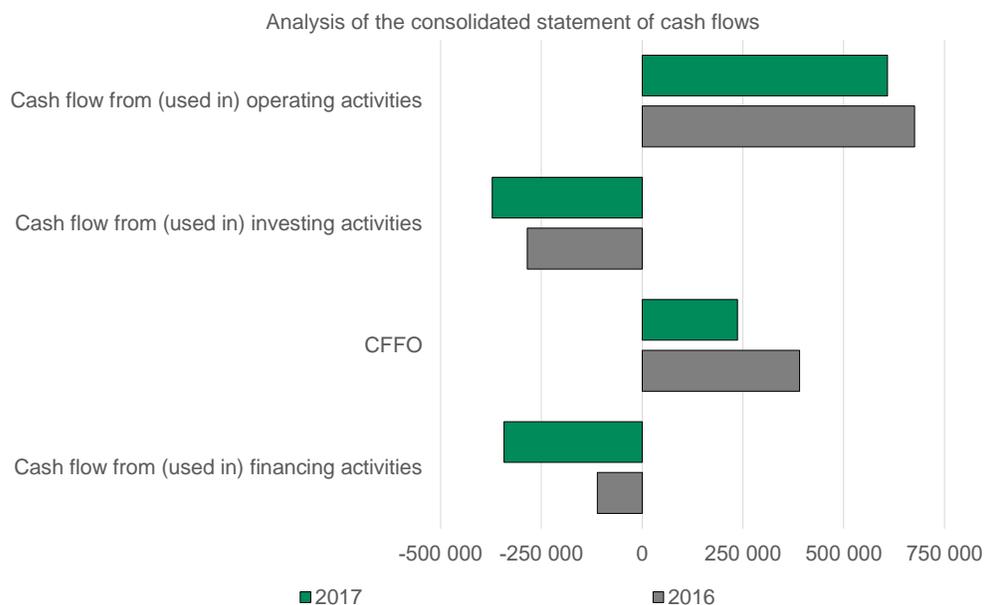
Cash flow

Cash flow

Consolidated cash flow

[PLN '000]	Q4 2016	Q4 2017	Change	2016	2017	Change
Cash flow from (used in) operating activities	162,187	258,554	59.4%	658,209	595,773	-9.5%
Cash flow from (used in) investing activities	-66,145	-103,548	56.5%	-272,408	-354,121	30.0%
CFFO*	96,042	155,006	61.4%	385,801	241,652	-37.4%
Cash flow from (used in) financing activities	-2,816	-792	-71.9%	-112,380	-338,257	201.0%

*total cash flow from operating and investing activity



In Q4 2017 the Company generated net cash flow from operating activities higher by 59.4% than in Q4 2016 – in Q4 2017 it amounted to PLN 258,554,000 compared to PLN 162,187,000 a year before. During four quarters of 2017, the Company generated cash flow from operating activities in the amount of PLN 595,773,000 (-9.5% y/y).

Cash flow from investing activities increased its value (in absolute values) in Q4 2017 by 56.5% (to PLN 103,548,000) relative to the analogous period of 2016. Cumulative for 12 months of 2017 cash flow from investing activity was lower by 30.0% from cash flow from the analogous period last year.

In Q4 2017, the Company recorded negative cash flow from financing activities of PLN 792,000 (paid interest). In the whole 2017, the Company generated negative cash flows from financing activities of PLN 338,257,000 (bonds worth PLN 300,000,000 were redeemed, dividend of PLN 34,013,000 was paid, and interest of PLN 4,242,000 was paid).





Debt and liquidity ratios

Debt and financing structure

[PLN '000]	31 December 2016	31 December 2017	Change
Overall debt ratio	39.5%	29.9%	-9.6 p.p.
Ratio (debt plus employee liabilities)/EBITDA	1.47	0.66	-55.1%
Net debt ratio/EBITDA*	0.15	-0.17	-
Debt to equity ratio	65.2%	42.7%	-22.5 p.p.
Fixed capital to non-current assets ratio	99.4%	95.7%	-3.7 p.p.
Current debt ratio	19.8%	17.9%	-1.9 p.p.
Non-current debt ratio	19.7%	12.0%	-7.7 p.p.

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

Overall debt ratio

The overall debt ratio as at 31 December 2017 went down by 9.6 p.p. compared to 31 December 2016 and reached 29.9% - the share of borrowed capital in the overall financing sources of the Company decreased (in March 2017 bonds worth PLN 300,000,000 were redeemed).

The level of the Company's debts as at 31 December 2017 did not pose any risk to the Company's operation and its ability to settle liabilities in a timely manner. The Company's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q4 2017 dropped by 55.1% to 0.66. When comparing data as at 31 December 2017 to data as at 31 December 2016, a significant drop was recorded in debt (redeemed bonds of PLN 300,000,000) with the concurrent nominal increase in EBITDA (cumulatively for the last four quarters).

Ratio net debt/EBITDA

The ratio describing the relation of net debt (the total of current and non-current liabilities less cash and equivalents) to EBITDA dropped from 0.15 as at 31 December 2016 to -0.17 as at 31 December 2017. The value of net debt dropped by ca. PLN 201 million and amounted to PLN -115 million with EBITDA going up by ca. PLN 108.1 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2017 decreased in relation to 31 December 2016 by 22.5 p.p. and was 42.7% - liabilities dropped by ca. PLN 247 million along with an increase in equity by ca. PLN 615 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 95.7% (as at 31 December 2017) compared to 99.4% (as at 31 December 2016) – in the analysed period the value of non-current assets increased by approx. PLN 500 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 373 million. The increase in assets was primarily attributable to the reversal of impairment loss of assets.



Liquidity ratios

	31 December 2016	31 December 2017	Change
Current liquidity ratio	1.25	1.08	-13.6%
Quick liquidity ratio	1.15	0.99	-13.9%

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



Turnover ratios

Turnover ratios

[PLN '000]		31 December 2016	31 December 2017	Change
1. Inventory turnover	<u>Average inventories</u> costs of goods, products and materials sold	19	30	57.9%
2. Debtors collection rate*	<u>Average debtors</u> revenue	48	57	18.8%
3. Creditors payment rate**	<u>Average creditors</u> costs of goods, products and materials sold	77	134	74.0%
4. Operating cycle	1+2	67	87	29.9%
5. Cash conversion cycle	4-3	-10	-47	370.0%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover ratio

The inventory turnover ratio as at 31 December 2017 increased to 30 days, compared 31 December 2016. Disposal of inventories takes on average 11 days more.

Debtors collection ratio

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 57 days (as at 31 December 2017), compared to 48 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 57 days to ca. 134 days, compared to the end of 2016. In the period under analysis, the Company had a higher level of current trade creditors (by approx. PLN 16 million) with lower costs of products, goods and materials sold (due to the reversal of the impairment loss of the Group's assets).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period lengthened to 87 days. On average after 87 days, the Company's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2017 was -47 days. The negative value of the cash conversion cycle means that the Company trade credit (financing with the non-interest-bearing borrowed capital).

Investments and capital investments of LW Bogdanka S.A.

The value of cash held by the Company as at the end of December 2017 stood at PLN 538,633,000, of which:

- PLN 121,806,000 is disclosed under non-current assets,
- PLN 416,827,000 is disclosed under current assets.

The amount of PLN 121,806,000 includes the financial resources accumulated by the Company as part of the Mine Closure Fund and intended to cover the cost of mining plant liquidation (these funds are kept in a bank deposit).

The amount of PLN 416,827,000 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 Company 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).

Assessment of factors an untypical events affecting the operating profit

In 2017 two one-off events took place and materially affected the Company's financial result.

The first event refers to the reversal, made on 31 December 2017, of an impairment loss of non-current assets (created as the end of 2015), given that the premises for the loss of value ceased to exist. The total impact on the operating result amounted to PLN 495,982,000. This event was described in detail in the Financial Statements of LW Bogdanka S.A., Note 4.3.

The second material event was the conclusion, on 17 October 2017, by LW Bogdanka S.A. and the trade unions active at LW Bogdanka S.A. of an agreement to amend the existing Company Collective Bargaining Agreement to the extent it is related to payments of coal allowances to the retirees and pensioners. As a result of the agreement, the existing retirees and pensioners, for whom LW BOGDANKA S.A. was the last place of employment, have lost their right to free coal. As a result of signing the agreement, the right to free coal after retirement was also lost by the current employees of LW Bogdanka S.A. in exchange for a right to receive a one-off additional compensation / severance pay for retirees and pensioners. As a result of the agreement, the whole existing coal allowance provision was released. The total effect of all operations connected with coal allowances and the agreement signed in this regard on the operating result amounted to ca. PLN 114,931,000.

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

In 2017 no material off-balance sheet items occurred.



Capitals, funds and sources of capital

Capitals, funds and sources of capital

As at 31 December 2017, the Company's equity amounted to PLN 2,884,627,000.

Equity [PLN '000]		
Ordinary shares		301,158
Other capitals		1,615,010
	Including:	
	Supplementary capital	702,549
	Other capital reserves,	912,461
	Including:	
	Capital reserves	908,622
	Equity on Management Options issuance	3,839
Retained profits		968,459
	Including:	
	Revaluation capital reserve	66,023
	Other capital – retained profits brought forward	253,461
	Total net income	648,975

The share capital as at the end of 2017 amounted to PLN 301,158,000.

Supplementary fund

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

In 2017 the Company's supplementary capital did not change and as at 31 December 2017 amounted to PLN 702,549,000. As at 31 December 2017, the supplementary capital represented 24.4% of the share capital.

Other capital reserves

As at 31 December 2017, the Company's other capital reserves amounted to PLN 912,461,000. In 2017 they increased by 18.4%.

Company Social Fund

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2017 the Social Benefits Fund was increased by PLN 6,500,000 due to additional impairment loss. According to the Rules of the Company Social Benefit Fund, in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount

by which the basic write-off will decrease shall not be higher than the amount of the additional write-off and other income on account of partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2016, the fund increased by PLN 34,190 and as at 31 December 2017 it amounted to PLN 12,439,190.



Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (Dz.U. of 2017.2126, as amended), LW Bogdanka SA collects funds for covering the costs of mine closure on a separate bank account. As at 31 December 2017 the value of those funds amounted to PLN 121,806,340. Increase in funds at the bank account results from a payment made from mandatory annual write-offs for 2016 (which should be made by 31 January of the following year) and in 2017 totalling PLN 8,723,740 and bank interest on funds deposited in the account of PLN 1,864,410.

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

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



4. Shares and shareholding



Share capital structure and shareholding

Share capital structure

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

On 4 January 2012, a total of 3,208,111 employee shares were introduced to the Warsaw Stock Exchange, and further 34,754 employee shares were introduced on 4 February 2013. The Company'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 Company has a strategic majority shareholder. The majority shareholder is the Enea Group which holds a majority block of shares which accounts for 66.0% of the shares in LW Bogdanka S.A. (the majority shareholder's block of shares totals 22,448,834 shares, which corresponds to a nominal value of PLN 112,244,170). Other shareholders of the Issuer are mainly institutional investors in the form of pension and investment funds.

Treasury shares

In 2017 LW Bogdanka S.A. and subsidiaries of LW Bogdanka S.A. did not acquire any treasury shares of the Company.

Changes in the shareholding structure by the date of the Report

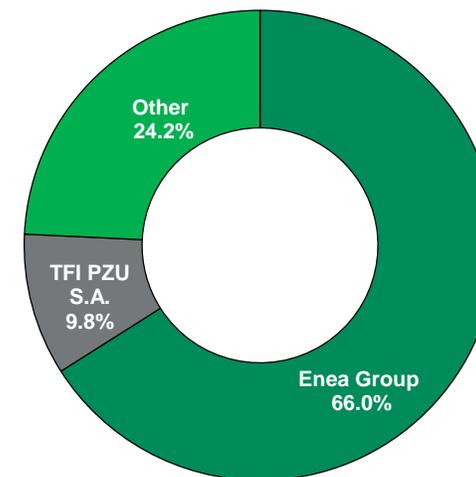
According to the information of the Company, the Issuer's shareholding structure has not changed since the publication of the Directors' Report for the Operations of LW Bogdanka S.A. for three quarters of 2017.

Shareholding structure

The table below shows a shareholding structure of the Company as at 31 December 2017 and as the date of publishing this Report, i.e. 23 March 2018

Shareholder	Number of shares/ number of votes at the Shareholders Meeting	Share capital interest/ interest in the total number of votes
Shareholding structure of LW Bogdanka S.A. as at 31 December 2017 and 23 March 2018		
Enea Group	22,448,834	66.0%
TFI PZU S.A.	3,320,620	9.8%
Other	8,244,136	24.2%
Total	34,013,590	100.0%

Shareholding of LW Bogdanka S.A. as at 23 March 2018



Participation of the LW Bogdanka's shares in indices

The Company was first listed on the Warsaw Stock exchange on 25 June 2009. During 2017, LW Bogdanka S.A. made part of the following indices:

- WIG – includes all companies listed on the WSE Main Market that meet the baseline criteria of the participation in indices;
- 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;
- Respect Index – index of socially responsible companies.

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

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

The table below presents the total number and nominal value of shares in LW Bogdanka S.A. as well as shares in related entities of the Company 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		Number of the Company's shares as at		Number of shares in Subsidiaries
	23 March 2018	Nominal value of the shares (PLN)	23 November 2017	Nominal value of the shares (PLN)	
Artur Wasil	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		Number of the Company's shares as at		Number of shares in Subsidiaries
	23 March 2018	Nominal value of the shares (PLN)	23 November 2017	Nominal value of the shares (PLN)	
Miroslaw Kowalik	0	0	0	0	0
Szymon Jankowski	0	0	0	0	0
Przemysław Krasadomski	0	0	0	0	0
Ewa Nowaczyk	0	0	-	-	0
Kamil Patyra	0	0	0	0	0
Mariusz Romańczuk	0	0	0	0	0
Anna Spoz	0	0	-	-	0
Michał Stopyra	0	0	0	0	0
TOTAL	Number of the Company's shares as at 23 March 2018	Nominal value of the shares (PLN)	Number of the Company's shares as at 23 November 2017	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
	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 Company

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

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

Potential changes in the shareholding structure

On 4 July 2013, as part of the introduction of the Management Options Scheme at the 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.

Dividend policy

Dividend policy

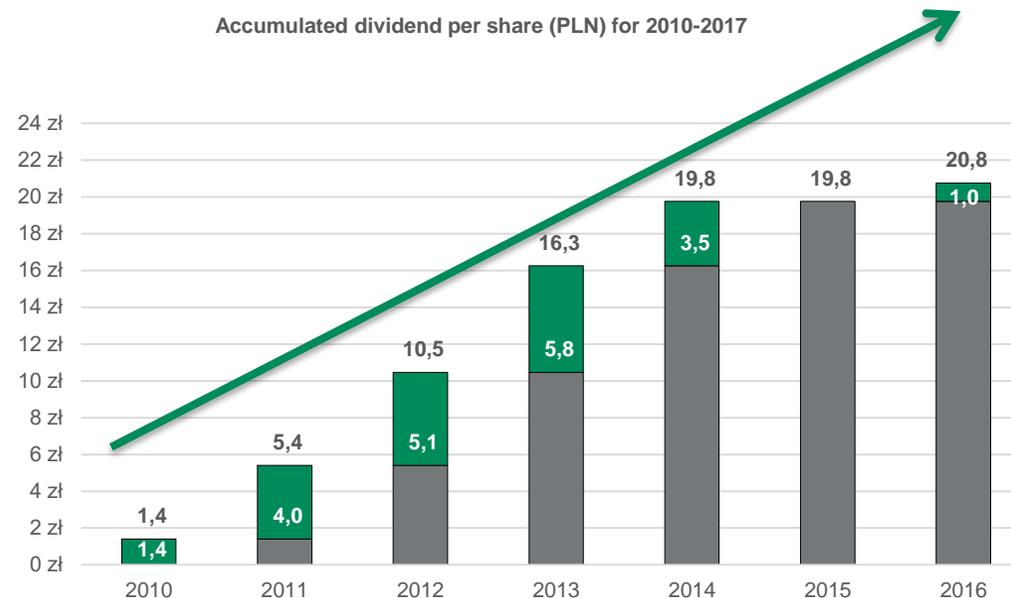
In the medium and long run, the Company wants to remain a dividend-paying company, and the Management Board of LW Bogdanka S.A. intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the Company's separate financial statements, prepared in accordance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

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

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

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

Accumulated dividend per share (PLN) for 2010-2017

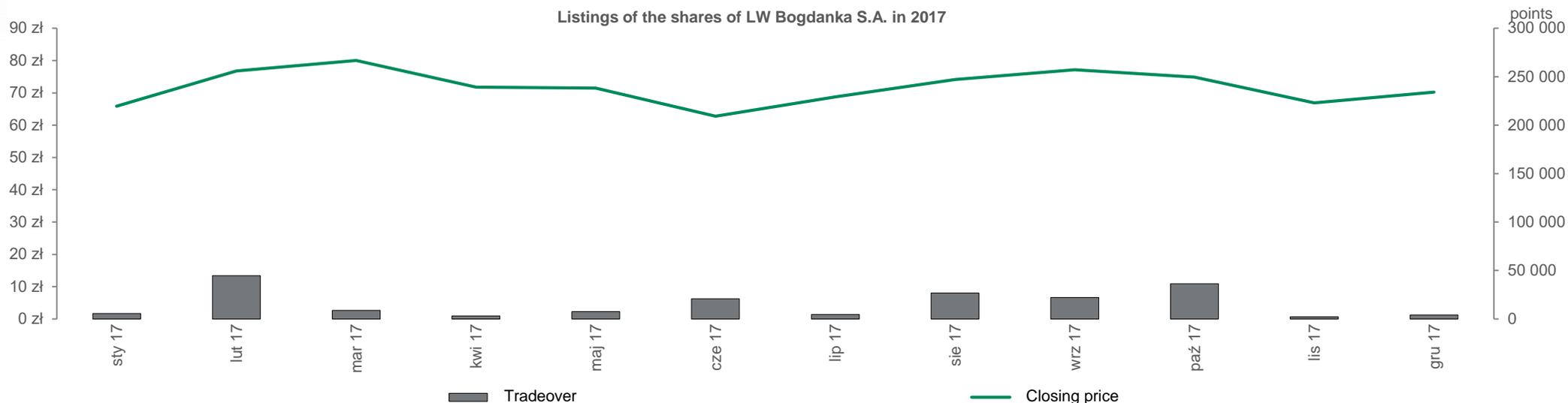


Dividend paid from profit in 2014-2017

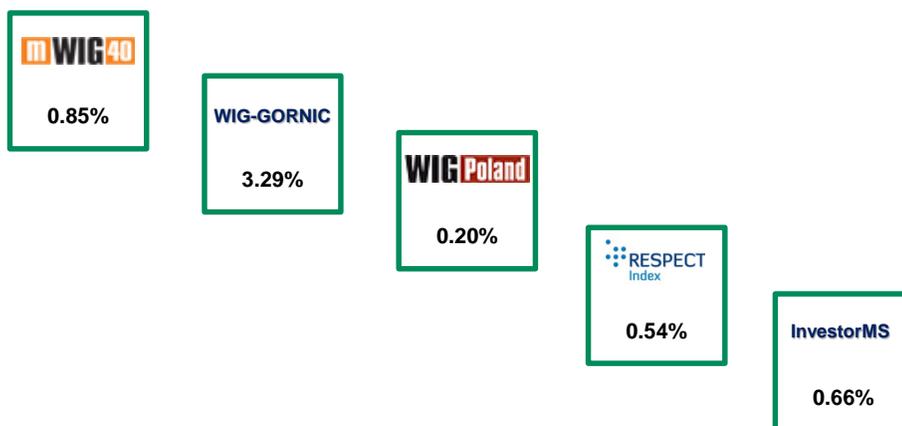
Item	Dividend payment year			
	2014	2015	2016	2017
Net profit (separate) for the previous year [PLN million]	326.5	272.9	-278.0	175.9
Total dividend [PLN million]	197.3	119.0	-	34.0
Dividend per share [PLN]	5.8	3.5	-	1.0
Earnings/(loss) per share [PLN]	9.6	8.0	-8.2	5.2
Dividend payment rate	60.4%	43.6%	-	19.3%
Dividend rate	6.0%	10.5%	-	1.5%



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



Participation of the Company's shares in indices as at 23 March 2018



Key share indicators:	2015	2016	2017
Maximum price [PLN]	100.85	72.49	83.80
Minimum price [PLN]	31.40	30.39	59.00
Last price [PLN]	33.21	69.50	67.00
Average price [PLN]	67.23	49.00	71.50
Capitalisation at end of period [PLN million]	1,129.6	2,363.9	2,278.9
Book value [PLN million]	2,105.9	2,269.7	2,884.6
Price/earnings ratio	-4.1	12.9	3.8
Price/book value	0.5	1.0	0.9
Rate of return at end of period [%]	-65.4	109.3	-3.8
Dividend rate [%]	10.5	-	1.5
Average turnover per session [PLN '000]	5,598.6	3,726.7	1,362.6
Average volume per session	88,082	43,201	19,011
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590



Investor relations – how we do it

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

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

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

LW Bogdanka S.A.'s Integrated Report for 2016 was awarded the main prize in the prestigious contest for the Deloitte Central European Sustainability Report Award.

We have been shortlisted for Stage II of the Golden Website Contest.

We have received the Award in the 1st edition of the Transparent Company of the Year ranking (as a company making part of the mWIG40 index).

For the 10th time we have been listed on the Respect Index.



In 2017 we took the following steps as part of the investor relations activities:

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

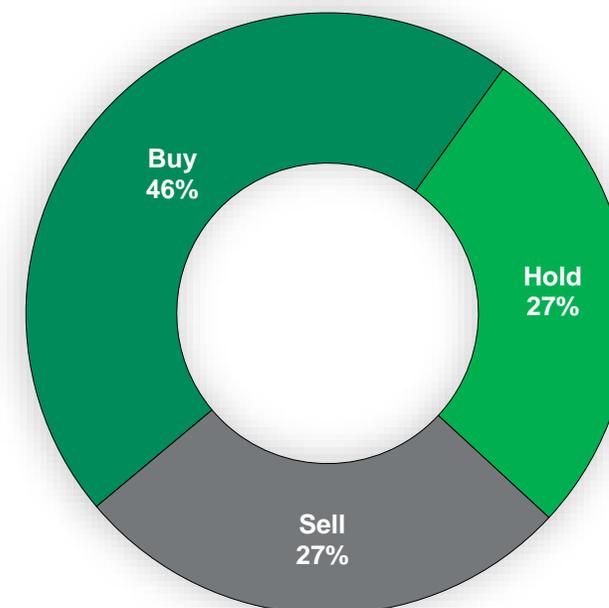


Analysts recommendations

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
4 August	Erste Securities DI	Buy	PLN 86.90	PLN 73.20
12 September	Societe Generale	Sell	PLN 71.00	PLN 78.50
13 September	PKO BP	Hold	PLN 80.00	PLN 78.57
14 September	BDM DM	Buy	PLN 99.20	PLN 78.50
21 September	Vestor DM	Buy	PLN 95.00	PLN 78.06
13 October	BZ WBK	Sell	PLN 51.00	PLN 75.60
15 October	BOŚ DM	Buy	PLN 90.00	PLN 74.37
13 November	BZ WBK	Sell	PLN 63.20	PLN 68.95
24 November	Societe Generale	Hold	PLN 76.00	PLN 68.90
4 December	Haitong Bank	Hold	PLN 70.87	PLN 66.90
7 December	Vestor DM	Buy	PLN 75.00	PLN 67.10
11 December	BDM DM	Buy	PLN 81.05	PLN 66.80

In 2017, 73% of analysts recommended "BUY" or "HOLD" shares of LW Bogdanka S.A.





5. Governing bodies



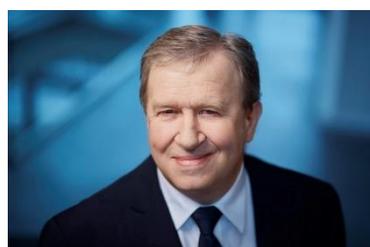
Composition of the Management Board



Adam Partyka

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

Mr Adam Partyka obtained an M.Sc. degree from the Lublin University of Technology where he studied computer science application in engineering. He also completed post-graduate studies at the University College of Enterprise and Administration in Lublin with major in finance and accounting. He has completed a number of training courses in the following fields: audit, responsibility and competence of management personnel, finance for managers, as well as courses for members of management boards and supervisory boards of companies. He has been related to LW Bogdanka since 1985. From June 2014 he held the position of the Deputy Chairman of the "Solidarity" Trade Union. Between 2007 and 2014 he was a shift foreman responsible for electrical equipment underground. Between 2006 and 2012 he was a member of the Supervisory Board of LW Bogdanka S.A. On 1 April 2016 he became Vice-President of the Management Board, Employee and Social Affairs at LW Bogdanka S.A.



Stanisław Misterek

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

Mr Stanisław Misterek graduated from the Maria Curie-Skłodowska University in Lublin, Faculty of Economics, with an MA degree, Post-Graduate Studies on European Standards in Finance and Accounting at the Warsaw School of Economics, Post-Graduate Studies on Public Procurement at the European University of Law and Administration in Warsaw, and on International Accounting Standards / International Financial Reporting Standards at the University College of Enterprise and Administration in Lublin. He has completed many training courses on finance management and accounting. He is a professional accountant certified as a Chartered Accountant. Mr Stanisław Misterek has been related to the mining and power industry for thirty-seven years. He has maintained his ties with the Lublin Coal Basin since 1979. Since 1990 he has held key positions in the LW Bogdanka Group. During that time, he gained experience in managing a company from the mining and power industry, with particular focus on managing its financial affairs. From May 2008 to January 2016, he was responsible for the finances of Łęczyska 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.



Artur Wasil

President of the Management Board

Mr Artur Wasil graduated in 2002 from the Faculty of Mining at the AGH University of Science and Technology in Krakow, with a degree in Mining and Geology, specialising in Mining Geotechnics. In 2002 he joined Lubelski Węgiel Bogdanka S.A. where he went through the levels of professional career from a trainee to a team foreman of extraction brigade. In 2012 Mr Wasil started work at PRG Linter S.A. where he performed the role of Mining Director, and in 2014 was appointed to the position of the President of the Management Board. Mr Artur Wasil also holds a post-graduate diploma in European Project Management and EU Law obtained at the Marie Curie-Skłodowska University in Lublin. On 21 March 2018 he took the position of the President of the Management Board of LW Bogdanka S.A.



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. From 16 February 2018 to 20 March 2018 he took the position of the President of the Management Board of LW Bogdanka S.A.



Marcin Kapkowski

Vice-President of the Management Board, Procurement and Investments

Mr Marcin Kapkowski is an automation engineer by trade. In 2001 he graduated from the Faculty of Electrical Engineering at the Technical University of Częstochowa. In the last 15 years, he has attended and completed numerous courses and business trainings. Mr Marcin Kapkowski worked with SANDVIK international engineering group for 15 years. As an employee of the group, he has explored various industry branches, from steel to engineering, and for the last 3 years also the mining one. In the Polish branch, he acted as the Managing Director and a Member of the Management Board. He has gained previous experience in multiple business areas and, having operated on almost all continents, has developed business contacts on the global market. From 2007 to 2013, he was responsible for creating and implementing business strategies at the Wire and Heating Technology division. He has performed and participated in many optimisation and restructuring processes in the field of sales, purchases, production, and product range management. Since 23 May 2016 he has been the Vice-President of the Management Board, Procurement and Investments at LW Bogdanka S.A. Mr Marcin Kapkowski is fluent in English.



Changes in the composition of the Company's Management Board

Date	Event
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16 February 2018

The Supervisory Board of the Company adopted a resolution under which Mr Krzysztof Szlaga – President of the Management Board of of LW Bogdanka S.A. was dismissed from office.

The Supervisory Board of the Company adopted a resolution on appointing Mr Sławomir Karlikowski, the Vice-President of the Management Board in charge of Production and the Head of Mining Supervision in Mining Facility, as acting President of the Management Board.

19 March 2018

The Supervisory Board of the Company adopted a resolution on the appointment, effective as of 21 March 2018, of the President of the Management Board.

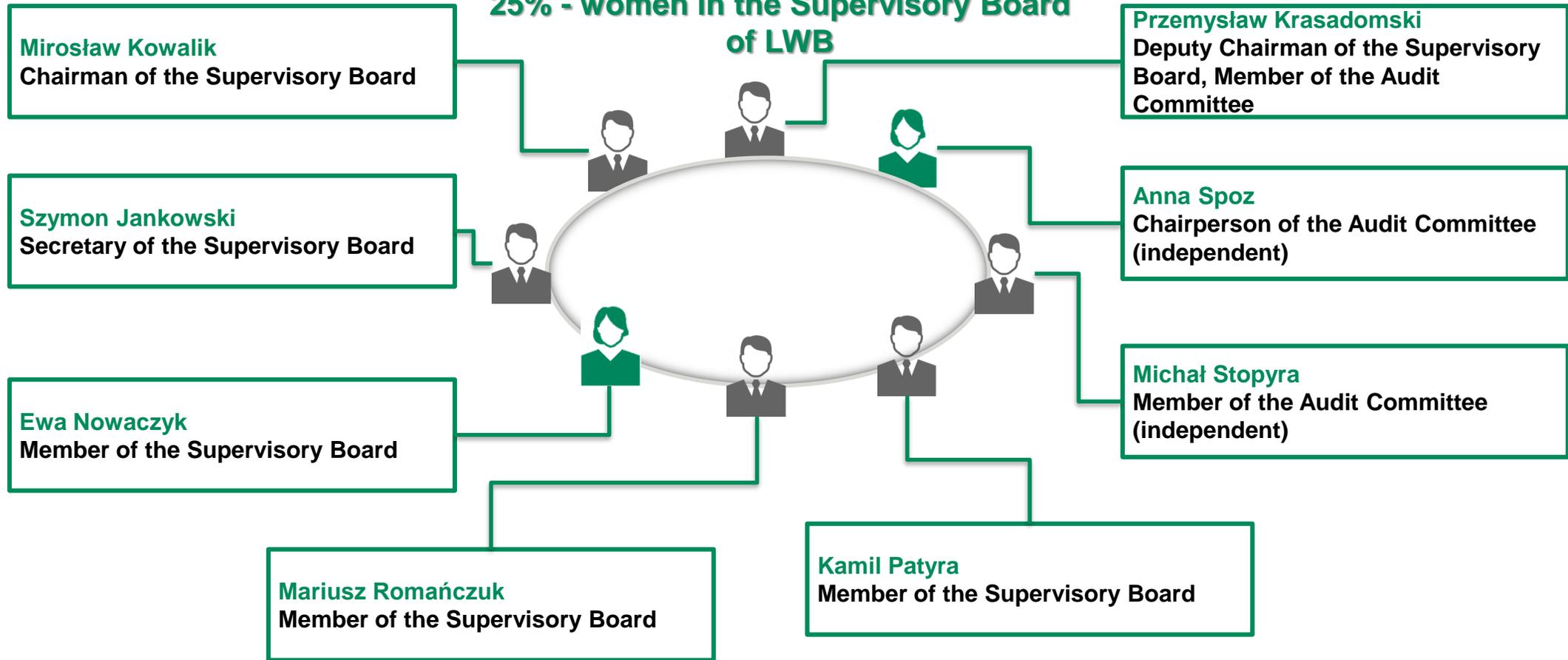




Composition of the Company's Supervisory Board as at 23 March 2018

25% - independent members in the Supervisory Board of LWB

25% - women in the Supervisory Board of LWB





Composition of the Company's Supervisory Board as at 23 March 2018

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 ALSTOM Power, 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.

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.

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.

Ewa Nowaczyk 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. She also completed the Post-Graduate Studies of the Polish and International Accounting Standards at the Poznań University of Economics. In 2007 she successfully completed a course for candidates for members of Supervisory Boards in State Treasury companies, and obtained the relevant diploma.

She has worked for Enea S.A. since 2003, starting at the Finance Department. Ewa Nowaczyk is currently employed with Enea Centrum sp. z o.o. as an Advisor to the Director of the Financial and Accounting Department. She has experience in supervising companies - she has seated in Supervisory Boards in such companies as Energetyka Poznańska Zakład Transportu sp. z o.o., Szpital Uzdrowski ENERGETYK sp. z o.o.

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.

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.

Anna Spoz graduated from Nicolaus Copernicus University in Torun. She has an MA in Management and Marketing from the Faculty of Economics and Management. She obtained her PhD in economics at the Faculty of Economics of Marie Curie Skłodowska University (UMCS) in Lublin. She completed postgraduate studies at UMCS and participated in numerous courses and conferences in the fields of accounting, finance and tax law. She completed a training course for candidates for chief accountants organised by the Accountants Association in Poland, Regional Branch in Torun.

Since 2002, she has been with POLTOR Sp. z o.o., at present as Finance Director. Since 2013, she has been a lecturer at the the John Paul II Catholic University of Lublin. She has many years of experience in accounting, taxes, finance and management. She is the author of publications in the areas of management (with a particular focus on company restructuring), corporate finance and financial accounting under both Polish IAS and IFRS.

Michał Stopyra graduated from the AGH University of Science and Technology in Krakow, where he completed studies at the Mining Faculty with specialism in Underground Mining and obtained the degree of Doctor of Engineering. He started his professional career in mines in Poland and Norway, which was then followed by scientific work at the Mining Faculty of the AGH University of Science and Technology. In 1993 he also started to carry out consulting activities focused on cooperation with industry. His career included such positions as an expert at the Provincial Mining Authority, consultant to mining equipment manufacturers as well as mining works manager in domestic and international projects (Germany, Czech Republic, Spain, Columbia, Russia). In 2000-2012, Mr Michał Stopyra was a member of the Supervisory Board in Techniczno Górnicza Spółka Akcyjna TEGONA S.A. in Katowice. From 2013, he has been acting as a member of the Supervisory Board of LW Bogdanka S.A.



Changes in the composition of the Supervisory Board of the Company

Date	Event
7 March 2017	<p>The Extraordinary General Shareholders Meeting removed the following persons:</p> <ul style="list-style-type: none">• Szymon Jankowski• Magdalena Kaczmarek• Mirosław Kowalik• Przemysław Krasadomski• Wiesław Piosik• Michał Stopyra. <p>The Extraordinary General Shareholders Meeting appointed the following persons to the Supervisory Board for a joint term of office of three years:</p> <ul style="list-style-type: none">• Szymon Jankowski• Magdalena Kaczmarek• Mirosław Kowalik• Przemysław Krasadomski• Kamil Patyra• Wiesław Piosik• Mariusz Romańczuk• Michał Stopyra.
25 August 2017	<p>Wiesław Piosik resigned from his function at the Supervisory Board of LW Bogdanka.</p>
20 December 2017	<p>Ms Anna Spoz was appointed by the Minister of Energy to the Supervisory Board of LW Bogdanka S.A.</p>
29 December 2017	<p>The Extraordinary General Shareholders Meeting of LW Bogdanka S.A. removed Ms Magdalena Kaczmarek from the Supervisory Board.</p> <p>The Extraordinary General Shareholders Meeting appointed Ms Ewa Nowaczyk to the Company's Supervisory Board.</p>





Rules of appointment and remuneration; salary levels

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

Detailed information can be found in Chapter 6. Corporate Governance on pages 81-87.

Rules of remuneration of the Management Board Members

The rules of remuneration of the members of the Management Board of LW Bogdanka S.A. which applied in 2017 were introduced under the Resolutions of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 7 March 2017 and of the Supervisory Board of the Company of 27 March 2017. All members of the Management Board entered into Service Agreements – Management Contracts with the Company referred to in Article 3.2 of the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Dz.U. [Journal of Laws] No. 26, item 306, as amended). The Service Agreements, and the Non-Compete Agreements attached thereto, signed by the Company stipulate that:

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

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

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

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

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

Remuneration of individual members of the Management Board paid in 2017 on account of management contracts

The total gross remuneration paid to the Members of the Management Board in 2017 amounted to PLN 4,035,408.18. For fulfilling their duties in the Company, the Members of the Management Board received remuneration under a Service Agreement.

In 2017, Members of the Management Board of the Company did not receive remuneration for holding functions in the Subsidiaries of LW Bogdanka S.A.

Gross remuneration paid to the Company's proxies in 2017 amounted to PLN 1,662,756.76. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

Name and surname	The term of office in the Management Board in 2017	Remuneration
Krzysztof Szlaga	1 January – 31 December	982,609.09
Stanisław Misterek	1 January – 31 December	768,912.38
Adam Partyka	1 January – 31 December	761,677.85
Sławomir Karlikowski	1 January – 31 December	766,289.43
Marcin Kapkowski	1 January – 31 December	755,919.43



Rules of appointment and remuneration; salary levels

Remuneration of individual members of the Company's Management Board paid in 2017 on account of employment contracts

The Members of the Management Board are employed under management contracts.

Changes in the rules of remuneration after 1 January 2017

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

Moreover, the resolution specifies as follows:

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

MANAGEMENT OPTIONS SCHEME

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

As at 31 December 2017, a total of 1,143,863 options were allocated within the Management Options Scheme.

Upon assessment of the financial statements for 2017, the Company's Supervisory Board will determine whether the objectives were accomplished and criteria fulfilled with respect to exercising the Options by persons covered by the Management Options Scheme for 2017.

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





Rules of appointment and remuneration; salary levels

Rules of remuneration of the Company's Supervisory Board

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

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

The remuneration of members of the Supervisory Board was determined by virtue of resolution No. 30 of the General Shareholders Meeting of 26 June 2017 as a product of the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year as announced by the President of the Central Statistics Office of Poland and the multiplier 1.2. Moreover, in relation to the Enea Group regulations for the representatives of the Enea Group in the Supervisory Board of the Company, a fixed flat-rate monthly remuneration has been established in the amount of PLN 1.0 for each month. That provision was amended by virtue of resolution No. 5 of the Extraordinary General Shareholders Meeting of 17 August 2016 which specifies that the indicated representatives of the Enea Group in the Supervisory Board of the Company are not entitled to any remuneration. The above provisions regarding the remuneration of the Supervisory Board Members were confirmed by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 on the rules for determining the remuneration of the Supervisory Board Members.

Amount of remuneration of individual members of the Supervisory Board paid out in 2017

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2017 amounted to PLN 272,063.80, including:

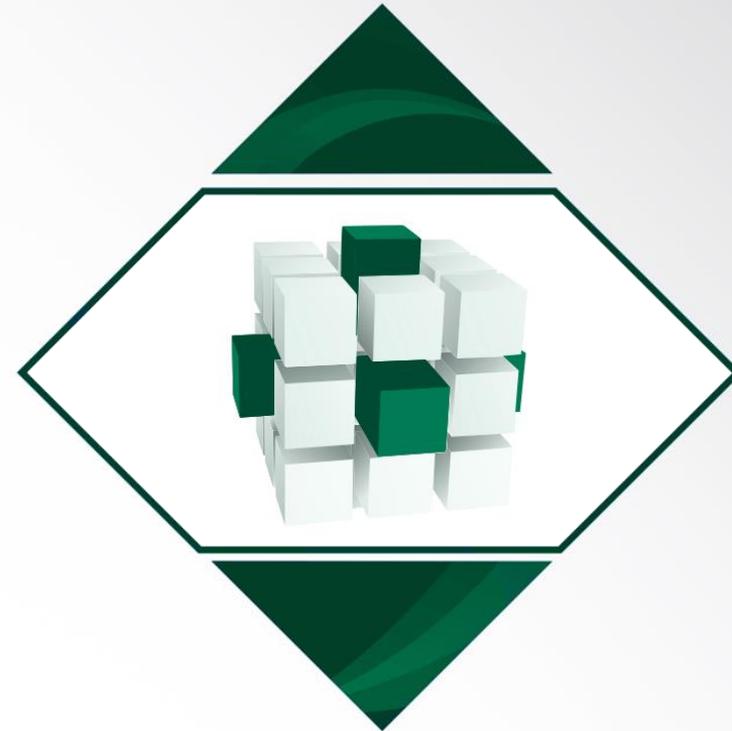
Name and surname	Remuneration
Kowalik Mirosław	PLN 0.00
Krasadomski Przemysław	PLN 58,276.72
Jankowski Szymon	PLN 58,276.72
Ewa Nowaczyk	PLN 0.00
Kamil Patyra	PLN 48,616.82
Mariusz Romańczuk	PLN 48,616.82
Anna Spoz	PLN 0.00
Michał Stopyra	PLN 58,276.72
Piosik Wiesław	PLN 0.00
Kaczmarek Magdalena	PLN 0.00

Other benefits and sources of remuneration

In 2017 Members of the Management Board and the Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the subsidiaries.

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





6. Corporate governance



Corporate governance rules and rules departed from

In 2017, LW Bogdanka S.A. complied with the new rules of the “Best Practice for WSE Listed Companies” (hereinafter the “Best Practice for WSE Listed Companies”), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warsaw of 13 October 2015. The Best Practice for WSE Listed Companies is available on the WSE website devoted to corporate governance - www.corp-gov.gpw.pl.

Corporate governance rules departed from

The intention of the Company's Management Board is to apply all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Company that would dominate the potential benefits arising from market needs, in 2017 the Company departed from the application of some of the corporate governance rules and recommendations as specified below.

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

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

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

Comment:

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

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

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

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

Comment:

Decisions related to the composition of the Company's Supervisory Board are made by the General Shareholders Meeting of LW Bogdanka S.A., therefore the Company may periodically fail to meet the criteria of this principle. On 20 December 2017, the Minister of Energy appointed an independent member of the Supervisory Board, Ms Anna Spoz. Since then, the Company has adhered to this principle.

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

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

Comment:

Given the fact that decisions related to the composition of the Company's Supervisory Board are made by the General Shareholders Meeting of LW Bogdanka S.A., and the Chair of the Audit Committee is appointed by the Supervisory Board from among its members, the criteria of this principle were not met until 20 December 2017, when the Minister of Energy appointed an independent member of the Supervisory Board, Ms Anna Spoz (the Chairperson of the Audit Committee). Since then, the Company has adhered to this principle.



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

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

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

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

Comment:

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

Diversity policy

The Company does not maintain any formal diversity policy for its administrative, management and supervisory bodies. The rules for appointing the Company's Management Board and Supervisory Board members are defined in the Articles of Association. While appointing its governing bodies, the Company lays great emphasis on ensuring versatility and diversity of education, age and professional experience of the candidates, but does not discriminate against anyone on the grounds of sex, age, origin or other factors which do not affect the assessment of the candidate's suitability for a given position. Appropriate background for the job is a factor which plays a decisive role.

Irrespective of the above, the Company follows a diversity policy on candidate selection. LW Bogdanka's diversity policy is aimed at exploiting employee potential, using their skills, experience, talents and qualifications in the atmosphere of respect and support. Such an approach applies to all of the Company's employees, thereby improving the Company's operations and building its strong market position. We believe that with such a diversity policy in place the Company improves work efficiency, builds trust and prevents discrimination, thus creating the atmosphere of mutual respect.

The issue of diversity is regulated in the Company's Diversity Policy, the Articles of Association, the Work Rules, the Code of Ethics, the Personnel Policy, and the Collective Bargaining Agreement.

Pursuant to the Code of Ethics, any forms of discrimination, both direct and indirect, abuse or harassment are absolutely inadmissible and unacceptable at LW Bogdanka S.A.

Under the Work Rules, one of the basic obligations of the employer is to prevent discrimination at the workplace, especially on the grounds of sex, age, disability, race, religion, nationality, political beliefs, membership in trade unions, ethnic origin, faith and sexual orientation, as well as on the grounds of fixed-term or permanent employment contracts, or full-time or part-time employment. A policy of equal employee development opportunities is a key element of the strategy pursued by the Company.

The Personnel Policy specifies the rules for recruiting employees. When searching for the best candidates, the Company looks for knowledge, professional qualifications, personal suitability and professional experience. We appreciate the value of human capital and that is why we pay great attention to the recruitment process. In the process of recruiting and selecting candidates, we are guided by professional criteria. We choose candidates based

on the requirements determined for specific posts.

Under the Collective Bargaining Agreement, we are obliged to ensure equal opportunities for effective and well-organised work so that the remuneration an employee receives corresponds to the type of work they perform and is related to the quality and effectiveness of that work. The criteria for determining remuneration are designed to guarantee fair pay for work performed. Remuneration for work is established at an amount corresponding to the type of work performed and employee qualifications required in order to do the work with account taken of the amount and quality of the work done.

LW Bogdanka's key personnel is selected on the basis of objective technical criteria with due regard for diversity. The Company ensures equal opportunities for career development and advancement.

Activities carried out by LW Bogdanka S.A. as regards equal opportunity rules:

- ensuring that all the employees are familiar with the Code of Ethics and constantly promoting the standards of ethical conduct at the mine (company website, boards, roll-ups, posters, notifications, OHS gazette, etc.).
- training sessions regarding discrimination and harassment for the management staff

- equal access for women to the decision-making processes, promotions, pay rises and management positions
- using a non-discriminatory remuneration system
- equal access to training for all employees
- dialogue with employee representatives (trade unions)
- regular internal communication with all the employees
- pension schemes
- support for the families of the employees in need (the Solidary Miners Foundation)
- equal support for local initiatives.

LW Bogdanka S.A. – Management Board as at the end of 2017

	2017
Total	5
Women	0
Men	5
Below 30 years	0
Between 31 and 40 years	0
Between 41 and 50 years	2
Over 50 years	3
Foreigners	0

LW Bogdanka S.A. – Supervisory Board as at the end of 2017

	2017
Total	8
Women	2
Men	6
Below 30 years	0
Between 31 and 40 years	4
Between 41 and 50 years	3
Over 50 years	1
Foreigners	0





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

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

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

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

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

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

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

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

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

LW Bogdanka S.A. maintain accounting ledgers and draw up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as with the related interpretations announced in the form of regulations of the European Commission.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements. A body that supervises the financial reporting process and cooperates with an independent auditor is the Audit Committee, appointed by the Supervisory Board of the Company. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

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

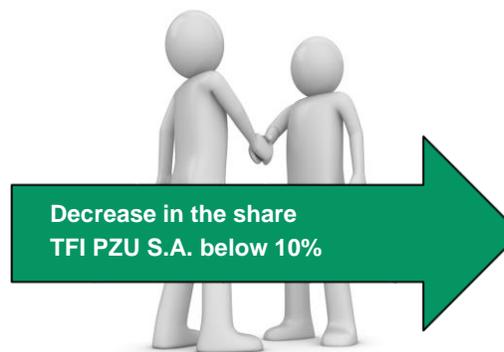
In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues relevant opinions. The auditor is appointed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

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



Shareholders directly or indirectly holding substantial shareholdings at the Company

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



Shareholder	23 March 2018	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
The Enea Group*	22,448,834	66.0%
TFI PZU SA**	3,320,620	9.8%
Other	8,244,136	24.2%
Total	34,013,590	100.0%

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

** in accordance with a notification received on 29 August 2017 (for more information see Current Report No. 22/2017).

Shares and shareholding

A detailed description of the share capital structure, shareholding structure, changes in its structure in 2017 as well as possible changes in the structure is described in Chapter 4. Shares and shareholding

Owners of all the securities which entitle to special control rights

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

Restrictions on exercising the voting right

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

Restrictions on transferring ownership of the Company's securities

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

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

Amendments to the Articles of Association of the Company shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Articles of Association of LW Bogdanka S.A. as well as provisions of the Commercial Companies Code.

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

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

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



**Governing bodies in LW Bogdanka S.A.
the Management Board**

Appointment of Management Board members

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

Pursuant to the Articles of Association of the Company, the Management Board shall be composed of three to seven members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board are appointed for a joint term of office which lasts three years.

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

Dismissal of Management Board members

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

Company name

Composition of the Management Board (until 16 February 2018)

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

On 16 February 2018 the of LW Bogdanka S.A., acting under Article 17.1.9 of the Company's Articles of Association, adopted the resolution on dismissal of Mr Krzysztof Szlaga from the position of the President and a Member of the Management Board. Furthermore, the Supervisory Board adopted a resolution on appointing Mr Sławomir Karlikowski, the current Vice-President of the Management Board in charge of Production and the Head of Mining Supervision in Mining Facility, as acting President of the Management Board.

Composition of the Management Board (from 21 March 2018)

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

Artur WASIL – President of the Management Board

Mr Artur Wasil graduated in 2002 from the Faculty of Mining at the AGH University of Science and Technology in Krakow, with a degree in Mining and Geology, specialising in Mining Geotechnics. In 2002 he joined Lubelski Węgiel Bogdanka S.A. where he went through the levels of professional career from a trainee to a team foreman of extraction brigade. In 2012 Mr Wasil started work at PRG Linter S.A. where he performed the role of Mining Director, and in 2014 was appointed to the position of the President of the Management Board. Mr Artur Wasil also holds a post-graduate diploma in European Project Management and EU Law obtained at the Marie Curie-Skłodowska University in Lublin. On 21 March 2018 he took the position of the President of the Management Board of 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 and certified as a Chartered Accountant.

Mr Stanisław Misterek has been related to the mining and power industry for thirty-seven years. He has maintained his ties with the Lublin Coal Basin since 1979. Since 1990 he has held key positions in the LW Bogdanka Group. During that time, he gained experience in managing a company from the mining and power industry, with particular focus on managing its financial affairs. From May 2008 to January 2016, he was responsible for the finances of Łęczyńska Energetyka Sp. z o.o. On 1 April 2016, he took up the post as the Vice-President of the Management Board, Economic and Financial Affairs at LW Bogdanka S.A.

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

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

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.



Governing bodies in LW Bogdanka S.A. the Management Board

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. When working in the Company, 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.

Krzysztof SZLAGA – President of the Management Board (until 16 February 2018)

Mr Krzysztof Szlaga 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. 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 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. With LW Bogdanka S.A. since 2013. From 1 April 2016 to 16 February 2018 he has been holding the position of the President of the Management Board.

Description of operations and authorisations

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

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

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

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

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

In particular, without prejudice to the powers of the other governing bodies LW Bogdanka S.A., the following issues shall require a resolution of the Management Board:

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

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

The Company's Management Board pays due attention to transparency and efficiency of the management system of the Company and maintenance of its affairs in compliance with provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

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

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

Tasks and obligations of the members of the Management Board in 2017

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

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



Governing bodies in LW Bogdanka S.A. the Management Board

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

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

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

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

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

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

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

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

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

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

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

Indirectly supervises the performance of assignments by subordinate organisational units.

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

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

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

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

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

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

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



Governing bodies in LW Bogdanka S.A. Management Board, Dividend

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

- performing other duties specified in the Geological and Mining Law, and the resulting delegations applicable to Head of Mining Supervision in Mining Facility.

Information about Management Board meetings and the resolutions adopted

In the reporting year 2017 the Management Board held 64 minuted meetings and adopted a total of 1,513 resolutions. In accordance with Section 5.6 of the Rules of Procedure of the Management Board of LW Bogdanka S.A. 17 resolutions were adopted in a written manner.

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

Information on powers of proxy granted and revoked

In 2017 the Management Board of the Company did not grant any new power of proxy. The power of proxy held by Mr Krzysztof Bogusz was revoked due to the expiration of his employment relationship.

Dividend policy

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

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

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

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





Governing bodies in LW Bogdanka S.A. Supervisory Board

Appointment and removal from office of the Supervisory Board members

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

In accordance with the Articles of Association of the Company, the Supervisory Board consists of five to nine members. The members of the Supervisory Board are appointed and removed from office by the General Shareholders Meeting for a joint term of office of three years, with a proviso that the State Treasury represented by the Minister of Energy is entitled to appoint one member of the Supervisory Board. Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

Should a Board Member resign from their function, he or she shall submit a written statement of resignation to the Management Board and provide the same for the attention of the Supervisory Board.

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

Composition

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

In 2017 the Company's Supervisory Board operated in the following compositions:

Composition of the Supervisory Board (from 23 February 2016)

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

Composition of the Supervisory Board (from 7 March 2017)

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

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 2018.

On 19 December 2017 the Company received a notification from the Minister of Energy, Mr Krzysztof Tchórzewski, of appointing Ms Anna Spoz to the Supervisory Board.

On 29 December 2017, the Extraordinary General Shareholders Meeting removed Ms Magdalena Kaczmarek from the position of a member of the Supervisory Board.

On 29 December 2017, the Extraordinary General Shareholders Meeting appointed Ms Ewa Nowaczyk to the Supervisory Board.



Composition of the Supervisory Board as at 23 March 2018

Mirosław Kowalik	Chairman of the Supervisory Board
Przemysław Krasadomski	Deputy Chairman of the Supervisory Board
Szymon Jankowski	Secretary of the Supervisory Board
Ewa Nowaczyk	Member of the Supervisory Board
Kamil Patyra	Member
Mariusz Romańczuk	Member of the Supervisory Board
Anna Spoz	Member of the Supervisory Board
Michał Stopyra	Member of the Supervisory Board

Description of activities

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

The powers of the Supervisory Board, apart from those resulting from applicable laws, include the following:

- assessment of the Directors' Report on the Company's operations, the financial statements for the preceding financial year, the Directors' Report on the Group's operations, and the consolidated financial statements of the Group, if such reports are prepared;
- selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
- assessment of motions of the Management Board regarding the distribution of net profit or covering of net losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the assessments referred to in items 1 and 3;



Governing bodies in LW Bogdanka S.A. Supervisory Board and the Audit Committee

- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adoption of the uniform text of the Company's Articles of Association prepared by the Management Board;
- granting consent for making an advance payment to the shareholders towards an anticipated dividend;
- approving the Rules of Selecting and Dismissing Supervisory Board Members Selected by the Company's Employees;
- appointing and dismissing members of the Management Board, including the President of the Management Board, subject to the provisions of Article 17.2;
- determination of the remuneration of Management Board members;
- suspending the Management Board members from office;
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
- granting permission to Management Board members for accepting positions on the governing bodies of other entities,
- approval of material and financial plans, long-term development plans, and area strategies adopted by the Management Board;
- granting consent for purchasing and disposing of non-current assets the value of which exceeds PLN 20,000,000;
- representing the Company in agreements and disputes between the Company and the Management Board members,
- granting consent for the Company to enter into a significant agreement with a shareholder holding at least 5% of the total vote in the Company or a related entity. A significant agreement within the meaning of the previous sentence shall be an agreement whose value, on the date of the agreement, exceeds 10% of the value of the Company's consolidated equity established on the basis of the latest published financial statements of the Company. The above obligation does not apply to typical transactions and transactions executed on an arm's length basis within the Company's operating activities with entities that form part of the Company's group.
- granting consent to enter into:
 - a) a contract for legal services, marketing services, public relations and social communication services, and management consulting services, if the amount of the expected total remuneration for those services exceeds PLN 500,000 net annually,
 - b) an amendment to a contract for legal services, marketing services, public relations and social communication services, and management consulting services which raises the remuneration above PLN 500,000 net annually,
 - c) a contract for legal services, marketing services, public relations and social communication services, and management consulting services which does not stipulate the maximum remuneration;
 - d) a donation agreement or other agreement with a similar effect the value of which exceeds PLN 20,000 (twenty thousand zloty), or 0.1% of total assets, within the meaning of the Accounting Act of 29 September 1994, established on the basis of the last approved financial report;
 - e) contract for release from a debt or other agreement of a similar effect, in excess of PLN 50,000 (in words: fifty thousand) or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, as determined on the basis of the last approved financial statements;
- giving an opinion on the report on hospitality expenditure presented to the General Shareholders Meeting by the Management Board, as well as on expenses on legal services, marketing services, public relations and social communication services, and management consulting services.



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

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

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

Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2017.

The Committee shall be composed of at least three members appointed by the Board from among its members for a period corresponding to the Board's term of office.

Membership in the Committee shall terminate along with the termination of the membership in the Supervisory Board, however a Committee member may be at any time by a resolution of the Supervisory Board recalled from the composition of the Committee. A Committee member may also resign from membership in the Committee at any time filing a resignation to the Committee Chairman. In the case of the Committee Chairman he shall file his resignation to the Chairman of the Supervisory Board. When the Committee Chairman is the Chairman of the Supervisory Board then the Committee Chairman shall file the resignation to the Vice-Chairman of the Supervisory Board.

The Chairman of the Committee shall be elected by the Supervisory Board. The Chairman of the Committee shall direct and supervise the Committee's work, in particular the organisation and course of Committee meetings. The Chairman of the Supervisory Board may belong to a committee of the Supervisory Board, but cannot act as Chairman of the Audit Committee.

Committee meetings shall be convened by the Chairman or, in his/her absence, a Board member nominated by him/her. The first Committee meeting shall be convened by the Chairman of the Supervisory Board or a Board member nominated by him.

Notifications of committee meetings shall be subject to the provisions on notifications of Board meetings. Committee meetings shall be held as necessary, and one meeting shall be held before the Company publishes its financial statements.



Governing bodies in LW Bogdanka S.A. Audit Committee

Committee resolutions shall be adopted by an absolute majority of votes. In the event of an equal number of votes, the Chairman of the Committee shall have the casting vote.

The resolutions of the Committee shall be adopted in the same manner as the resolutions of the Supervisory Board.

The Committee shall provide the Supervisory Board with information about its meetings.

The Chairman of the Committee shall submit resolutions, requests and reports to the Board relating to matters on the Board's agenda, as well as other requests, including requests regarding the need to prepare, for the committee's needs, an expert opinion or an opinion on the scope of the committee's tasks or to employ an advisor.

The terms and conditions of the Rules shall apply as appropriate to any matters not covered by the regulations relating to the Supervisory Board committees.

In 2017 the **Audit Committee** operated in the following compositions:

Composition of the Audit Committee from 3 March 2016

Przemysław Krasadomski	Chairman
Magdalena Kaczmarek	Member
Michał Stopyra	Member

Composition of the Audit Committee from 27 March 2017

Przemysław Krasadomski	Chairman
Magdalena Kaczmarek	Member
Mariusz Romańczuk	Member
Michał Stopyra	Member



In connection with the fact that the "Adjustment Period" resulting from the entry into force of the Act on Statutory Auditors, Audit Firms and Public Regulators of 11 May 2017 ended on 21 October 2017, the Audit Committee, composed as indicated above, could not perform its duties. On 20 October 2017, the Chairman of the Audit Committee, Mr Przemysław Krasadomski, informed the Company that he did not meet the independence criteria within the meaning of the above-mentioned Act, and then submitted a written resignation from his position in the Audit Committee to the Chairman of the Supervisory Board, and his resignation was accepted.

On 20 October 2017, Mr Michał Stopyra, an independent member of the Supervisory Board, was appointed as Chairman of the Audit Committee with a view to limiting the scope of non-compliance with the requirements of the above-mentioned Act.

On 19 December 2017, the Company received a notification from the Minister of Energy, Mr Krzysztof Tchórzewski, of a decision to appoint Ms Anna Spoz to the Supervisory Board as an independent member of the Supervisory Board.

On 29 December 2017, the Extraordinary General Shareholders Meeting removed Ms Magdalena Kaczmarek from the position of a member of the Supervisory Board.

Composition of the Audit Committee from 15 January 2018

Anna Spoz	Chairman
Przemysław Krasadomski	Member
Michał Stopyra	Member



General Shareholders Meeting

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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



General Shareholders Meeting

Information of General Shareholders Meetings of LW Bogdanka S.A. held in 2017

In 2017 one Annual and two Extraordinary General Shareholders Meetings of the Company were held:

Annual General Shareholders Meeting of 26 June 2017, which was held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 26 June 2017:

- Opening the General Shareholders Meeting,
- Electing the Chairman of the General Shareholders Meeting,
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions,
- Adopting the agenda.
- Considering the Financial Statements and Directors' Report on Operations of LW Bogdanka S.A. for 2016.
- Recognising the Consolidated Financial Statements of the LW Bogdanka Group and the Consolidated Director's Report on Operations of the LW Bogdanka Group for 2016.
- Presentation of the Management Board's motion regarding the distribution of net profit for 2016.
- Presentation of the Report of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. for 2016.
- Adopting resolutions on:
 - Approval of the Financial Statements of LW Bogdanka S.A. for 2016,
 - Approval of the Directors' Report on Operations of LW Bogdanka S.A. for 2016,
 - Approval of the Consolidated Financial Statements of the LW Bogdanka Group for 2016,
 - Approval of the Directors' Report on Operations of the LW Bogdanka Group for 2016,
 - Granting discharge to the members of the Management Board of LW Bogdanka S.A. for the performance of duties in 2016,
 - Approval of the Report of the Supervisory Board of LW Bogdanka S.A. for 2016,
 - Granting discharge to the members of the Supervisory Board of LW Bogdanka S.A. for the performance of

duties in 2016,

- Distribution of net profit for the financial year 2016,
- Specifying a dividend date and a date of payment,
- Adopting a resolution on amending the Company's Articles of Association,
- Adopting a resolution on adopting new contents of the ENEA Code,
- Adopting a resolution on changing rules governing remuneration for members of the Supervisory Board,
- Miscellaneous,
- Closing the General Shareholders Meeting.

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

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

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

Extraordinary General Shareholders Meeting of 29 December 2017, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 29 December 2017:

- Opening the General Shareholders Meeting,
- Electing the Chairman of the General Shareholders Meeting,
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions,
- Adopting the agenda,
- Adopting a resolution on amending the Company's Articles of Association,
- Adopting resolutions on changes in the composition of the Supervisory Board,
- Adopting a resolution on amending Resolutions No. 16 and 18 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. on 7 March 2017,
- Miscellaneous.
- Closing the General Shareholders Meeting.

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





7. Statement on non-financial information



The Company and its business model

Below is the 2017 LW Bogdanka S.A. Statement on Non-Financial Information ("Statement") which is a separate part of the Directors' Report on Operations of LW Bogdanka S.A. for 2017 covering non-financial information on LW Bogdanka S.A. for the period from 1 January 2017 to 31 December 2017. The Statement was drawn up based on our own rules with account taken of the provisions of the Accounting Act of 29 September 1994, the European Commission guidelines on non-financial reporting, Polish non-financial information standards (SIN), and the GRI Standards.

General information

Policies and performance indicators presented in the Statement were selected and described on the basis of the materiality criteria with account taken of the internal and external factors regarding the operations of LW Bogdanka S.A. The main factors considered when assessing the materiality were as follows: the industry in which the Company operates, business profile and market environment, impact on the local community and natural environment, and the expectations of the identified stakeholders. The data presented in the Statement will be reviewed and updated in annual reporting periods and regularly published together with annual reports for subsequent financial years.

Description of the Company and its business model

LW Bogdanka S.A. is one of the leading hard coal producers in Poland. It is also a leader of innovation and efficiency in the national mining sector. The coal extracted by the Company is mostly used to produce electricity, heat and cement. LW Bogdanka is the only hard coal mine in Poland located outside the Upper Silesia region and the only mine extracting coal in the territory of the Lublin Coal Basin.

The mining area exploited by LW Bogdanka S.A. is divided into three mining fields: Bogdanka, Nadrybie and Stefanów (including the lifting shafts located only in Bogdanka and Stefanów).

The main source of the Company's revenue is the production and sale of thermal coal. In each of the compared reporting periods this activity generates nearly 97% of the LW Bogdanka S.A.'s revenue.

In 2017 the majority of the coal sales (95%) were to several key customers:

- Enea Wytwarzanie sp. z o.o. (Enea Group)
- Enea Połaniec (Enea Group)
- Energa Elektrownie Ostrołęka S.A.
- PGNiG Termika S.A.
- Grupa Azoty Zakłady Azotowe Puławy S.A.
- EDF Paliwa sp. z o.o.

The majority of the Company's sales (about 78%) are performed within the Enea Group, of which LW Bogdanka S.A. is a member. The activities of the Company are primarily concentrated in Poland.



LW Bogdanka S.A. is the Parent of the LW Bogdanka Group comprising Łęczyńska Energetyka sp. z o.o. and three subsidiaries established in 2013-2014. Certain in-house functions of the mine were spun off into those subsidiaries, which are wholly owned by LW Bogdanka S.A.

Another member of the Group, i.e. Łęczyńska Energetyka Sp. z o.o., supplies heat to the mine and is responsible for the mine's water and wastewater management operations (supplies of potable and industrial water and treatment of sanitary wastewater and rain water produced by the mine). The company also delivers heat to external recipients, e.g. housing estates and other facilities in Łęczna.

Nevertheless, the scale of its activities is significantly lower compared to the operations of the mine, both in terms of revenue and employment.

EkoTRANS Bogdanka sp. z o.o., established in 2013, provides waste management services to utilise waste generated in the

course of coal shale washing and purifying, and more specifically waste transportation and logistics services.

RG Bogdanka sp. z o.o., established in 2013, provides services and supplies to and performs mining and building works for LW Bogdanka S.A.

The most recent subsidiary is MR Bogdanka sp. z o.o., established in 2014, which performs repairs and refurbishments on the ground, including the regeneration and manufacturing of steel structures. This company also provides its services to LW Bogdanka S.A. As the above tasks performed by the Company were previously carried out by the mine itself, the organisational modifications have not significantly changed the environmental impact of LW Bogdanka.

As an entity that mostly deals in coal extraction and processing, the LW Bogdanka Group is placed at the very beginning of the sector's economic path. LW Bogdanka Group's membership in the Enea Group provides opportunities to take advantage of various synergies (e.g. in 2015 LW Bogdanka S.A. signed a contract for the purchase of electricity from Enea S.A., while in 2017 the takeover by Enea of the Połaniec power plant located in the vicinity of Bogdanka expanded the possibility of securing the sale of coal in the long run). From the perspective of responsibility management, a business model which is so strongly vertically integrated gives extensive control over the social and environmental impacts connected with the creation of economic value.

Employee issues

Personnel Policy

In order to efficiently manage the employee potential, the Company maintains a personnel policy. The aim of the policy is to effectively manage human resources through employee recruitment and development and to retain an optimal level of workforce to enable the Group to efficiently run its business. In particular, it aims at selecting and shaping the employee's competencies in such a way as to prepare them as best as possible for effective implementation of the Company's goals and objectives, while having a sense of self-fulfilment and satisfaction from their work.

Personnel is one of the Company's key assets and a determinant of its long-term and sustainable growth. The Company is the major employer in the region engaged in continuous dialogue and cooperation with the stakeholders and therefore has created strong bonds with the region and its inhabitants. The Company employees are mainly the residents of the Łęczna Poviát and the nearby areas within a radius of about 50 kilometres. The mine's managers place great emphasis on developing human capital through effective motivation and continuous improvement of professional qualifications and interpersonal skills.

The Company policies on employee-related matters are included in the following documents:

- Work Rules
- Collective Bargaining Agreement
- Company Employee Benefit Fund Rules
- Code of Ethics.

The documents cover all the rules and processes related to employment and work at the Company, including matters relating to employee selection criteria, employee adaptation to the work environment, professional development, cooperation rules, rules for female workers and the incentive system.

When searching for the best candidates, the Company looks for knowledge, professional qualifications, personal suitability and professional experience. The basic characteristics of an employee are as follows:

- ability to work as part of a team
- ability to apply knowledge in practice
- ability to individually analyse information and draw conclusions
- ability to make reasonable decisions.

Every recruitment process at LW Bogdanka S.A. takes place with due regard for the rules of equality regardless of sex, origin, age, beliefs and other factors related to

the differences between candidates. Underground and surface employees make up 72.1% and 27.9% of the head count, respectively. Due to the nature of its business and the relevant legal requirements, the Company mainly employs men. LW Bogdanka S.A. does not introduce any restrictions on equality in employment, and its current structure results from employees' individual preferences as to the choice of their career.

	Employees working under employment contracts in 2017	Employees working under civil-law agreements in 2017
Women	248	5
Men	4,223	38
Total	4,471	43

The dominant form of employment at the Company is an employment contract, including in particular a permanent employment contract. In 2017 such form of employment applied to 4,154 employees (92.9%).

Generation Change Programme

In connection with an increased risk of a substantial outflow of employee competences, the Management Board of the Company, in order to secure personnel requirements, implemented the Generation Change Programme. The first stage was the Voluntary Redundancy Programme which makes it possible to bridge the generation gap in a reasonable and coordinated manner, spread this process over time, and maintain the continuity of operating activities. The aim of the Programme was to take early steps to prevent the adverse consequences of natural economic and demographic changes, and implement systemwide solutions in this regard. Current actions will take two or three years to show their potential effects.

The Company created a provision of PLN 21,688,000 for the Voluntary Redundancy Programme. In 2017, 141 employees took advantage of the Voluntary Redundancy Programme. Total cost of compensation, pays upon retirement due to old age and jubilee awards paid out under the Programme amounted to PLN 8,524,000.

	Employed in 2017	Left in 2017
Women	15	6
Men	209	209
Employees, breakdown by:		
• employees under 30	137	14
• employees between 30 and 50	84	99
• employees above 50	3	102
Total	224	215

The employment plan corresponds to the development plans of the Company. According to the plan for 2018, approx. 200 additional employees will be hired.

Rate of employee turnover in 2017 for employees working under employment contracts, broken down by sex:	
Women	6.0
Men	4.9

The Company believes that in order to counteract the effects of generation gap, it is also necessary to work closely with vocational schools and universities. The Company has signed letters of intent in that respect with the following institutions:

- the AGH University of Science and Technology in Krakow
- The Mining School in Łęczna
- The Mining School in Ostrów Lubelski

In addition to organising regular meetings with students and graduates and maintaining cooperation on technical issues, in 2017 LW Bogdanka S.A. initiated two new support and incentive programmes for future mining staff: scholarship fund for the best students of partner mining schools and the programme called "Permit to work at LW Bogdanka S.A." for the best graduates, which gives a guarantee of employment at the Company. Moreover, the The Mining School makes itself visible to prospective candidates by regularly organising student internships and theme meetings, and by undertaking other initiatives, for example by taking part in job fairs organised by the University of Science and Technology in Krakow.

In 2017 the Group organised internships for 233 high school and university students. Three vocational internships were also organised by external entities.



Employee issues

Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2017 internal and external training sessions were organised at the Company. Employees take part, out of their own initiative and upon consent of their superior, in external training and conferences.

Average number of training hours of employees working under employment contracts	
Women	7.9
Men	8.0

Number of training hours in 2017	Number of hours per employee in 2017
105,385	23.6

In 2017 the Company implemented a programme called LIGa under which promising Company employees indicated by the relevant Management Board members are covered by an individual development plan. The objectives of the programme are as follows:

- ensure that in the medium and long term the Company will have strategic leaders
- ensure predictable and continuous organisational flow of talents
- ensure employee development and retain employees
- relate career development to the Company's business needs
- expand the scope of motivation-building tools.

Additional non-salary benefits

In addition to their regular pay, employees of LW Bogdanka S.A. receive non-salary benefits. The most important benefits of this type, which are co-funded from the Company Social Benefits Fund, include:

- social allowance
- holidays for employees and their families, i.e. trips and journeys
- membership fees for sports facilities
- garden parties for employees
- tickets for cultural events
- nursery school for employees' children
- possibility of taking out a loan for housing purposes.

Funds for the Company Social Benefits Fund [PLN '000]	Funds used [PLN '000]	Performed in [%]
22,295.2	18,052.2	81.0%

Moreover, the employees may take advantage of private medical healthcare on preferential terms and take out additional insurance.

Management of Occupational Health and Safety (OHS)

LW Bogdanka S.A. is one of the safest mines in Poland. This has been achieved thanks to advanced, often very innovative, technological solutions and well-prepared personnel. Irrespective of the above, however, appropriate procedures and processes need to be developed and implemented to limit the risks and the effects of potentially unforeseeable events. Any issues related to OHS management are part of the Integrated Health and Safety, Quality and Environment Management System at LW Bogdanka S.A. Procedures for OHS management comply with OHSAS 18001 and PN-N 18001. The issues were also considered in the integrated corporate security management system. Although effective, the management systems are continuously improved. The Company is continuously looking for better and more effective solutions by analysing accidents and accident-related events.

The Company has also implemented a general safety management system.

The Company strictly complies with provisions regarding OSH and prevention, including threats monitoring performed on an on-going basis. An obligation imposed in the Company to test the safety of materials and tangible non-current assets in production conditions before the purchase and implementation is also of great importance for everyday safety of the employees. The Company does not merely rely on declarations of manufacturers and vendors, but carries out its own assessments and tests. Employees may join tests and assessments of personal protective equipment and work apparel. Opinions of staff members have an important influence on decisions as to which equipment should be purchased.

LW Bogdanka S.A. spends about PLN 110 million a year on occupational health and safety despite relatively good geological conditions and low level of methane hazard. Items of expenditure for that purpose include: rescue service maintenance (about PLN 4.0 million), fire prevention (PLN 14.0 million), coal dust explosion prevention (PLN 3.5 million), climate risk prevention (9.3 million), flood risk prevention (5.0 million) and collapse risk prevention (PLN 17.9 million). Expenditure for personal protective equipment amounted to PLN 1.6 million.

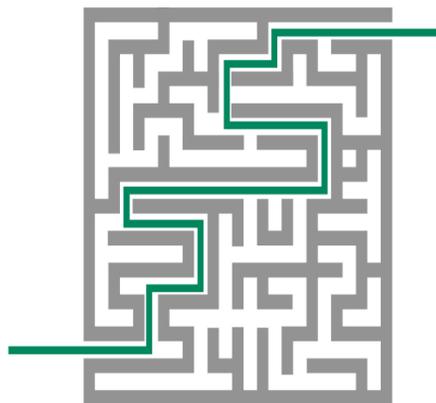
Redefining of individual processes, including automatization and mechanisation, contributes to permanently eliminating accidents or limiting the accident rate. A good example may be the use of machines in the process of disassembling longwall headings and removing casings, and securing roof of a coal deposit in wall niches. The use by LW Bogdanka S.A. of modern underground machinery and equipment, in addition to increasing the efficiency, means eliminating human presence in the most dangerous places. Important part of equipment are sprinklers – they limit dust thus reducing the threat of explosion and the black lung disease.

Employee issues

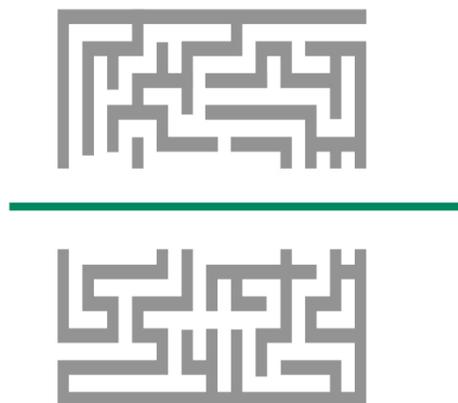
In mid-2017 the Company initiated a “Work Safety Improvement Programme”. The main objectives of the project were as follows:

- organising OHS-related and health-promoting events (Safety Week, Health Days)
- developing a programme to enable employees to make suggestions concerning occupational safety
- creating a platform that provides employees with permanent access to selected documents
- developing an “Occupational Health and Safety Handbook” for all the employees
- reorganising a contest about Occupational Health and Safety matters
- introducing a work accident helpline for employees.

In addition to obligatory periodical first aid training sessions, employees had the chance to take part in training on how to deal with an emergency related to the cardiovascular system. An agreement for a service called “Telecardiogram” was also signed. All the project assumptions were implemented within the reporting period.



		2017
Number of fatal accidents - total staff		1
Number of fatal accidents - subcontractors		0
Number of accidents that result in a loss of working time – total staff		4
Number of all reported accidents – total staff		99
Number of all reported accidents – subcontractors		128



Employee-related risks

Generation gap risk

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. They are valuable because of their knowledge and experience. Therefore, 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.

The Company manages the risk by continuously monitoring the employment structure and developing special programmes addressed to current employees and graduates of universities and vocational schools with a specialism corresponding to the Company’s activities.



Risk of key employee loss

In order for the Company to run its basic activities, that is to say to produce and sell thermal hard coal, it needs qualified and experienced employees. There are very few experienced and responsible miners on the labour market, especially in the south-eastern Poland where there is only one hard coal mine. Therefore, loss of key specialists in that field poses a substantial risk to the Company’s business.

LW Bogdanka S.A. manages that risk by offering attractive and motivating work conditions in what the Group sees as its key business areas. These measures are aimed not only to attract prospective employees, but also to promote self-development and qualification improvement among current employees. In addition to remuneration adequate for the position held and the number of years worked, the Company provides its employees with non-salary benefits set out in the Rules and Regulations of the Company Social Benefits Fund. These include loans granted on preferential terms and subsidies for holidays or sports and cultural events.





Social issues

The dominant values cherished by LW Bogdanka S.A. are as follows: honesty, professionalism and responsibility. These values ensure the harmonious development of the Company, which pursues its economic goals in line with social expectations and environmental requirements.

Until the end of 2017 the Company was consistently and systematically implementing the “Corporate Social Responsibility Strategy for 2014-2017”. The updated approach to social responsibility management may be defined in a nutshell as: “Safety of workforce, protection of local community and natural environment. Sustainable and foreseeable development and growth in value of the Company”. The strategy itself is based on the continued following of four priorities:

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



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

ISO 26000 contains Guidance on Social Responsibility, defined as the responsibility of the organization for the impact that its decision and activities have on the society and the environment, through transparent and ethical behaviour in key areas, such as:

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

Reporting



In July 2017 LW Bogdanka S.A. published the Group’s Integrated Report for 2016, once again developed in line with the GRI Guidelines, G4. The Report includes both financial and non-financial performance, and takes account of parameters specific to the mining industry.

The Report for 2016 covered all subsidiaries (MR Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., EkoTrans sp. z o.o., Łęczwińska Energetyka sp. z o.o.), and presented financial results and social impact. Reliability of the report and its compliance with the Guidelines was supervised by a third party expert who also supported works on the preparation of the publication.

For a few years now, the Company has been one of the leaders in terms of non-financial reporting, which is confirmed by the awards the Group received last year for the best Report in Poland and in Central and Eastern Europe, as well as active participation in the work on an update of the “Handbook for Report Makers” (October 2017) prepared by the Ministry of Development, the Ministry of Finance, CSR Info and a number of partners of the publication. The Handbook, which was published in autumn, offers a review of the latest non-financial reporting standards, talks about the benefits of applying such standards, and provides easy-to-read guidance on how to prepare yourself for social reporting. It also includes best practice of reporting applied by LW Bogdanka.

Management approach

Integrated Enterprise Risk Management System (ERM) and IT Risk Manager – risk management system of LW Bogdanka S.A. is based on policies and procedures such as: LW Bogdanka Corporate Risk Management Policy, Corporate Risk Management Model at the Group – ERM Procedures, LW Bogdanka Risk Register, LW Bogdanka Risk Map, List of Strategic Risks of LW Bogdanka S.A., and Programs of Strategic Risk Mitigating Measures at the Company Integrated Management System – operational management at LW Bogdanka S.A. is based on an

integrated system compliant with the following standards: PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004. In addition, the occupational health and safety management system is compliant with British standard BS OHSAS 18001:2007.

Ethics as component of the organisational culture

“LW Bogdanka S.A. is a company with an extensive organisational culture, an effective ethical programme, a consistent system of values, and, above all, a mission with the common good as its main purpose. The Company’s competitive position in the marketplace and the continued growth of trust in the relations with various groups of stakeholders confirm that LW Bogdanka S.A. was right to choose and promote management through values,” says dr Monika Baczewska-Ciupak, Department of Ethics, Faculty of Philosophy and Sociology, Maria Curie-Skłodowska University (UMCS) in Lublin.



The Code of Ethics established in 2011 is updated to ensure that it reflects the most recent situation in the Company and in the industry as a whole. The documents which have been in effect since 2015 are: “Supplier Code of Conduct of LW Bogdanka S.A.”; “Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company’s Code of Ethics”; information regarding “Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes of Developing Accident Reports”.

Educational and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the “Bogdanka” corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognised in LW Bogdanka S.A. In 2017, as part of the staff induction training and as part of the occupational health and safety training for team leaders, the Ethics Representative provided training in the Code of Ethics to 276 employees of the Company, including 193 newcomers.



Social issues

Trade Unions



Four union organisations operate at the Company. As at 31 December 2017, the size of the individual trade unions was as follows:

- “Solidarność” Independent Self-Governing Trade Union 1,080 members
- Trade Union of Miners in Poland – 1,577 members
- “Kadra” Trade Union - 283 members
- “Przeróbka” Trade Union – 289 members.

At the end of 2017, the number of staff employed at the Company amounted to 4,471 persons. In total, 3,229 employees were members of trade union organisations, which constitutes 72.2% of the total head count.

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

Social dialogue

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

In 2017 over 20 dialogue sessions with the trade unions were

organised to negotiate such issues as the amendments to the Articles of Association and implementation of the Enea Group Derivative Acts; 26 meetings of the Social Benefits Commission composed of representatives of the employer and the trade unions, and 2 scheduled meetings of the Conciliation Team for Periodic Assessment of the Impact of Mining on the Surface in the Communes of Cyców, Ludwin and Puchaczów, with the participation of the Director of the Regional Mining Office in Lublin, who chairs the Team.

Regular dialogue sessions and the openness to employees' demands brought a positive effect of the lack of any collective disputes at the Company in 2017.

Collective disputes

In 2017 no collective disputes took place. Trade unions conducted an on-going social dialogue with the Employer.

On 28 March 2017, an agreement was signed regarding the level of remuneration at the Company in 2017.

On 12 July 2017, the Trade Unions organised at the Company a Referendum on applying the ENEA Group Code at LW Bogdanka S.A. and on organising a potential protest against the implementation of the Code. 2,808 employees took part in the vote, which accounts for 62,6% of the persons entitled to vote and 83,0% of the employees who were in the workplace on the day the Referendum was held. 96,4% of the voters were against introducing the ENEA Code at the Company and 96,8% of the voters were in favour of a potential protest. The outcome of the Referendum was not binding upon the Company.



Effectiveness of safety management at the workplace

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

The Company maintains a quality management system compliant with the requirements of the relevant reference standards, which has been confirmed by audits carried out in the organisation.

Several (facultative) OHS solutions were implemented or kept in place in order to improve employee safety at the Company. The most important solutions include: placement of telecardiographs for independent heart rate monitoring across the mine, ensuring availability of a defibrillator and “Kazik” machines for collection of personal protective equipment (PPE), and implementing the “Work Safety Improvement Programme”, which covers a number of measures and events to increase knowledge of OHS, support preventive action and promote initiative to improve the level of safety at the mine, including the “Safer Workplace” and “Health Days at LWB”.





Social issues

Close to nature

Effective environmental management is based on the Integrated Health and Safety, Quality and Environment Management System. It complies with PN-EN ISO 9001:2009, PN-EN ISO 14001:2005, PN-N-18001:2004 and, additionally, as regards health and safety, with the British standard BS OHSAS 18001:2007.



Since 2015, the Company, in cooperation with the Polish Society for the Protection of Birds (OTOP), has promoted the new "Nadrybie" educational path. It runs around the Nadrybie Lake – and artificial reservoir created as a result of mining works. The "Nadrybie" path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value which is protected by the Natura 2000 network.

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

In 2017 stocktaking was performed along the Path to analyse its biodiversity (the populations of fish, birds, plants and reptiles were analysed). In addition, an updated version of the guidebook was prepared, a series of "Workshops with Naturalists" were organised for students of nearby schools, and the infrastructure was improved.

It is worth mentioning that the path is a common good, and in addition to the OTOP, also the following were engaged in its creation: the Puchaczów Commune Office, the Łęczna District Governor's Office, the Provincial Office of Land Reclamation and Water Facilities, who provided the land for the path, and the Jan and Kazimierz Bogdanowicz Primary School in Nadrybie.

Relations with the local community



From the very beginning of its existence, LW Bogdanka S.A. has been supporting its immediate surroundings and the local community, inter alia, by subsidising a range of local social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community.

The Company also sponsors sports and cultural activities. In 2017 the Company gave donations and in-kind contributions for a total amount of PLN 395,000 towards the Children's Hospital in Lublin, the Volunteer Fire Brigade in Kaniwola and support centres in the Lublin Province, among others.

Inter-Sector Cooperation for Life and Health



An agreement in effect in 2017 was signed by the following entities: Lubelski Węgiel Bogdanka S.A., the Solidary Miners Foundation, and the Regional Blood Centre in Lublin (RCKiK). The trilateral agreement is dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donor bank.

The LW Bogdanka Group has more than thirty years of blood donation tradition, owing to the Zdzisław Gola Honorary Blood Donors Club of the Polish Red Cross operating at the mine and the spontaneous expression of solidarity of our employees with persons in need of blood. The goal of the agreement is to conduct an education and volunteer programme consisting in the Company's staff and the local community becoming involved in blood and bone marrow donation campaigns. This is the first initiative of this kind in the region, combining the efforts of the public, business and non-governmental sectors to support the noble idea of blood and bone marrow donation and transfusion. In 2017 two blood and bone marrow donation actions were organised on the premises of the mine, the idea of blood donation was promoted, information and educational materials were regularly distributed, and a celebration was held to mark the 35-anniversary of the establishment of Z. Gola Honorary Blood Donors Club of the Polish Red Cross in Bogdanka.

Cooperation with mining schools



In the spring of 2017 the mine signed letters of intent with schools that hold classes with a specialism in mining: the Mining School Complex in Łęczna and the School in Ostrów Lubelski.

The letters concern future employment opportunities at the Bogdanka mine offered to outstanding graduates of the schools and a scholarship fund established to motivate students to work efficiently and effectively to prepare themselves for the mining profession.

The Solidary Miners Foundation



The Solidary Miners Foundation which operates at LW BOGDANKA S.A. addresses the needs of the Company's mining environment and the needs of the local mining environment. The Foundation provides help to miners in need (e.g. following an accident), and to miners' families that for various reasons have found themselves in difficult life circumstances, especially those who suffer from poverty or those who need ad-hoc support. The Foundation also responds to the needs of children raised in dysfunctional and poor families. The Foundation supports and promotes the development of talented young people from the local community. In Autumn 2016 the Foundation obtained the status of a public benefit organisation, which proves its strong commitment and effectiveness when it comes to accomplishing social benefit objectives.

Acting with an aim to fulfil its statutory objectives, the Foundation has subsidised surgeries, medical procedures, treatment, and rehabilitation, purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled.

In 2017, the costs of activities set forth in its by-laws amounted to more than PLN 210,000, which included:

- medical treatment and rehabilitation – 41%;
- purchase of medical equipment – 36%
- scholarships for good marks at school – 8%
- social aid – 6%
- other financing – 9%.

STATEMENT ON NON-FINANCIAL INFORMATION

Social issues

Employee volunteering

Charity fundraising on Bogdanka's premises – in 2017, there were several charity events organised to support the people in need. Above all, support was provided for actions initiated by the employees. This was done by means of donations, in-kind contributions and organisational support.

As part of the MOTOMIKOŁAJE action, organised by the Motocyklowe Monte Cassino Intermarium, an organisation associating the employees of the Company, money and gifts were collected for children currently staying at the Clinical Hospital, the Neuropsychiatric Hospital, the Orphanage in Lublin, and the Single Mother House. A large number of toys, clothes for children and youth, books and school supplies were collected and given away as Christmas presents.



Positive Twist – a permanent campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 12 months we collected several hundred kilograms of plastic caps. The action has become a permanent and popular event organised at Bogdanka. It makes everyone realise that simple habits, such as collecting plastic caps, can help achieve great charitable purposes.



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



Other CSR Projects



C-Zone Education – there is a dedicated educational zone at the mine, where we organise lessons and tours, during which we talk about the traditions, customs and the characteristics of work at the mine. In 2017 almost one thousand people visited the C-Zone.

“Bogdanka's Photographic Passion – 2018 Calendar” – the second edition of a contest for the Company's aficionados of photography was organised. The contest promoted the most beautiful places in the Lublin Region and was held under the motto “The grass is greener on the other side”. Employees may enjoy the beauty of the selected photographs over the course of the whole year, because the photos are included in company calendars.

LW Bogdanka S.A. is always willing to engage itself in initiatives that increase the knowledge and improve skills related to first aid. An example of such an initiative is the “Young Rescuers” contest, organised every year at the Jan and Kazimierz Bogdanowicz Primary School in Nadrybie for students of schools in the Łęczna Powiat.

“Health Days” is a preventive action organised to increase employees' knowledge of the way their organisms work, including of the basic parameters that help diagnose certain diseases or a risk of disease, for example risk connected with obesity or the cardiovascular system.

Awards and accolades



Lessons on ecology organised in the Nadrybie Educational Path, the Code of Ethics, the Integrated Health and Safety Management System as well as the partnership for the promotion of blood donation – these are the best long-term practices related to CSR recognised in the Report titled “Responsible Business in Poland. Best Practices 2016” prepared by the Responsible Business Forum.

Membership of 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 2017, the LW Bogdanka S.A.'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).

For its achievements in this field, LW Bogdanka S.A. was awarded the CSR White Leaf by the Polityka magazine.

Recognition in the 2017 Responsible Companies Ranking (Crystal Ranking).



Social issues

Membership in organisations, participation in industry initiatives

CSR Trends Monitoring Team at the Ministry of Economy



EURACOAL (The European Association for Coal and Lignite)



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



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

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

The study also makes it possible to draw comparisons within a certain industry. In 2017 LW Bogdanka S.A. once again took part in that project.



Vision of Sustainable Development for Polish Business (Vision 2050)



School of Underground Exploitation

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

Polish Association of Listed Companies



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



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

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

LW Bogdanka – Investor Friendly Company



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

Social issues

Key ratios

Sponsoring, CSR and promotion [PLN '000]		2017
Promotion, CSR		477.6
Sports sponsorship		5,564.5
Social/cultural sponsorship		186.6
Total		6,228.7

Donations [PLN '000]		2017
Grants		395

Donations [entities]		2017
Beneficiaries of the donations fund of LW Bogdanka S.A.		32

Risks associated with social issues

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 deciding on renegotiations of wage policy through protest actions. As at the day of submitting this Report there are four trade union organisations at the Company associating 72.2% of the employees. The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of LW Bogdanka S.A. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW Bogdanka S.A.

The Company manages the risk through cooperation and permanent constructive dialogue with the representatives of the Trade Unions as well as through talks and negotiations in situations of potential conflict. In 2017 over 20 dialogue sessions with the representatives of the social partners were organised.



Risk of conflict with the local community

Any production plant engaged in transmission activities generates emissions and exerts an impact (mining damage). This may be a burden for the local community residing in the vicinity of the plant. Mining activities have a major impact on the surrounding areas. Such impact manifests itself, among other things, in ground settling and local flooding. Such a situation may cause dissatisfaction or protests of the local inhabitants.

The Company manages the risk by strictly complying with the environmental protection laws and undertaking own initiatives aimed to reduce the impact that the Company exerts on the natural environment (e.g. projects related to the protection of biodiversity in the mine's neighbourhood). In addition, the Company compensates losses, if any, incurred as a result of its activities by facilitating the process of filing claims related to mining damage (e.g. online forms). What is more, the Company organises socially-oriented events to compensate for the inconvenience it causes to the local community. The fact that the Company is the largest employer in the region, offering stable employment conditions, helps to build the mine's positive image in the Lublin area.





Environmental issues - Location of LW Bogdanka S.A.

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

The immediate vicinity features:

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

The eastern part of the newly-created Ludwin mining field covers large areas of the Łęczna Lake District Landscape Park. The Brzeziczno Lake Reserve together with the separated Nature 2000 site are also located within the boundaries of the Park.

The connected mining areas, in their central and eastern parts, overlap with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 60009). This region is also a part of the "West Polesie International Biosphere Reserve". The Polesie Protected Landscape Area is located in the east, while in the south-east there is the Chełm Protected Landscape Area.

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





Environmental issues

Air protection

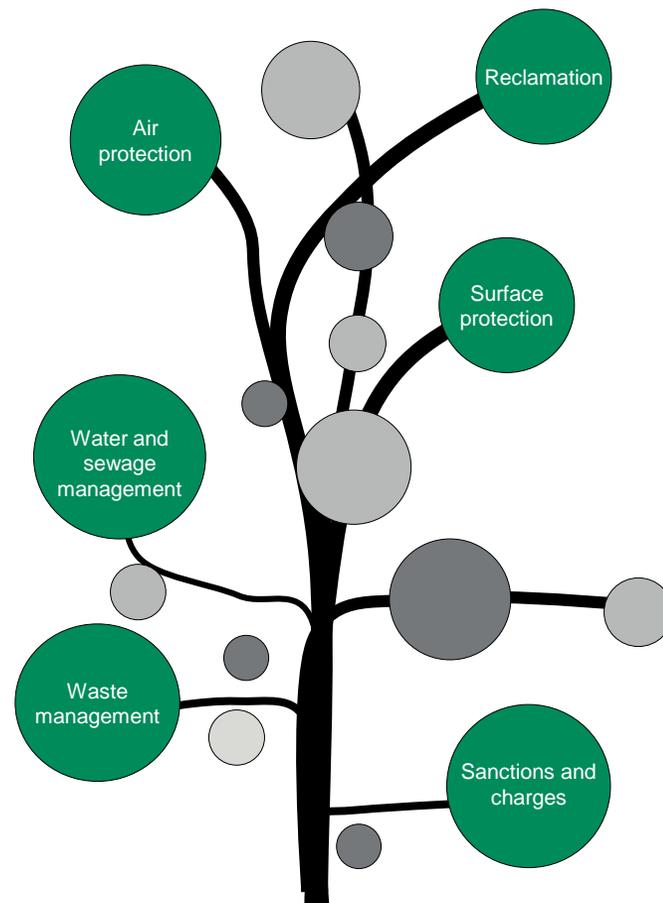
- The Company does not have an organised emitter that would emit dust and gases to the atmosphere
- a non-organised emitter at LW Bogdanka is the mining waste disposal facility which may be a source of dust on dry and windy days
- non-organised emission to the air is caused by welding processes and fuel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

Water and sewage management

- mainly concerns mine water, and includes:
 - rock mass draining at working sites
 - controlled drainage of Jurassic layers
 - use of water for fire and process purposes
 - pumping water to the surface
 - use of mine water on the surface (Mechanical Coal Processing Plant, Łęczwińska Energetyka Sp. z o.o. - as part of water treatment station operations)
 - retention of mine water in a surface sediment tank in order to reduce suspension
 - discharge of water from tank through a drench system and the Rów Żelazny ditch into the Świnka River in the amount of about 14,622 m3/day.
 - the content of chlorides and sulphates in mine water is 1,009mg/dm3.

Waste management:

- in 2017, total mining waste amounted to 5,693,700 tonnes,
- approximately 47% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 2,682,700 tonnes,
- 98% of waste is used for the purpose of rehabilitation of degraded land. It involves restoration of the original lay of the land by filling abandoned sand pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.
- other post-mining waste (3,011,000 tonnes) is stored at the mining waste neutralization facility in Bogdanka.



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

Reclamation

- in 2017, LW Bogdanka S.A. did not perform land reclamation works in post-industrial areas.
- maintenance works are performed on an ongoing basis with respect to the greenery, a facility used as a mining waste dump, previously-remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

Surface protection

- the influence of mining works performed in 2017 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact
- in the area of the village of Bogdanka and Nadrybie Wieś maximum soil settlement remains at a level of 5.0 m in the central part of the settlement basin
- damage to buildings in 2017 – as to date – were primarily related to rural buildings. The reported damage to those buildings did not pose any threat to their users and were removed on an ongoing basis
- the costs of removing damage caused by mining in 2017 amounted to a total of approx. PLN 3.1 million.

Environmental protection sanctions and charges to which the Parent is exposed

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

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

The Company complies with environmental standards, and did not incur any penalties in 2017 for violation of environmental rules laid down in the applicable laws.

Environmental issues

Key ratios

Electrical energy consumption [MWh]	2017
Electrical energy consumption	320,521.5

Water consumption [m3]	2017
Water consumption	7,411,852.0

Waste in 2017 ['000 tonnes]	Production	Recovery	Recovery [%]
Excavation waste	5,693.7	2,682.7	47.1%
Post-industrial waste	18.1	18.1	100.0%

Environmental protection [PLN '000]	2017
Waste utilisation	33,269.0
Protection costs (remediation, monitoring, etc.)	1,990.0
Charges for the economic use of the environment	399.0

Risks associated with environment protection

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

The operations of LW Bogdanka S.A. have a significant impact on the environment. Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques). In particular with respect to the following:

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

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



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

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased. It is estimated that the existing storage capacity of the waste yard (i.e. a facility used as a mining waste dump) is sufficient for up to 4 years of storing.

On the basis of a building permit, the Company has commenced works connected with increasing the height of the existing yard (to 250 MASL), and undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment could mean the risk of disrupting the stability of the extraction process.

Countermeasures: The Company performs works connected with increasing the height of the existing mining waste utilisation facility. Further, it continues works on acquiring new land to execute the next phases of extension of the yard.

The Company is taking intense actions related to the recovery and management of mining waste.



Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land).

All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas.

There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. These restrictions may require higher investment expenditure and therefore may affect the financial result.

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





Human Rights issues

Respect for human rights

Respect for human rights is a strict obligation of every organisation and its employees. This obligation results from the legal system applicable in the United Nations (Universal Declaration of Human Rights), the European Union (European Convention on Human Rights) and in Poland, especially the Constitution of the Republic of Poland, which guarantees respect for human rights and civil rights, including:

- right to freedom (Article 31)
- equality before the law and non-discrimination (Article 32)
- equality before the law irrespectively of sex (Article 33)
- right to privacy (Article 47)
- freedom and integrity of the person (Article 41)
- freedom of religion and belief (Articles 53-54)
- freedom of assembly and association (Articles 57-59).

At LW Bogdanka S.A. issues related to the respect for human rights are regulated in internal documents, including:

- Code of Ethics
- 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"
- CSR Strategy.

In addition, the Company's activities with respect to social responsibility are compliant with the Sustainable Development Goals (SDGs), including with the fifth goal, which provides for equality irrespective of sex.

By developing and adopting the above-mentioned regulations, the Company has undertaken to respect human rights and to actively promote such rights. In a situation where such rights are violated, appropriate measures are undertaken to immediately change the negative situation.

Just like in the majority of companies, in the case of relations between employees, it is of utmost importance to make sure that human dignity is respected and to counteract discrimination.

Pursuant to the Code of Ethics applicable at the Company, any forms of discrimination, both direct and indirect, abuse or harassment are absolutely inadmissible and unacceptable at LW Bogdanka S.A. Every employee is obliged to counteract any discriminatory acts and strongly protest against such acts.

Every new employee is informed of the Code of Ethics during induction training. All employees are familiarised with the contents

and mechanisms described in the code - all of them (100%) received a hard copy of the Code and signed it for confirmation.

Moreover, the Company has adopted the "Policy for determining the procedure and manner of organisation of training and surveys and dissemination of knowledge in the area of compliance with and promotion of principles of the Code of Ethics and prevention of frauds at LW Bogdanka S.A." The Policy was prepared in consultation with Heads of the Human Resources Management Department, the Marketing and PR Department and the Audit and Internal Control Department to regulate the procedure for training in values and ethical standards.

In addition to training, measures are undertaken with a view to promoting ethical behaviour and preventing any situations where human rights could be violated. Such measures are also supported by internal communication channels such as the Company's website, information boards spread throughout the premises of the mine, roll-ups, banners, internal and local magazines, and other channels which prove most effective under given circumstances.

In 2017 the Ethics Representative prepared for all employees of LW Bogdanka S.A. an e-learning training session about mobbing; the training included practical examples related to the subject. The training is accessible both from company PCs at a workplace and private PCs and mobile devices. There is no time limit imposed in relation to the training, therefore it can be accessed on multiple occasions for the purpose of learning and getting in-depth knowledge about undesired conduct in the area of mobbing.

Compliance with the Code of Ethics are the resulting regulations on respect for human rights is monitored by the Ethics Representative. The Ethics Representative reports directly to the Vice-President of the Management Board for Employee and Social Affairs. The Ethics Representative is responsible for developing the documents and training referred to above and actively participates in their implementation and enforcement. The Ethics Representative's task is to proactively monitor instances of potential violation of the Code of Ethics, look for solutions to any problems that may appear. Each month the Ethics Representative provides a report to the Vice-President of the Management Board for Employee and Social Affairs (responsible for the supervision of issues related to ethics management), about problems which had occurred and how they were resolved.

Employees may, or even are obliged to, report instances of potential incomppliance or unethical behaviour. The employees may contact the Ethics Representative in person, or by phone, post or e-mail. Moreover, the employees are welcome to use mail boxes located in all three mining areas and in the Management Board building. In this way, the employees may remain anonymous.

Total number of incidents of discrimination (at the workplace) in 2017	Total number of incidents of reported infringements – complaints and reservations regarding a failure to observe the Code of Ethics in 2017
0	38

Since 2014, bidders wishing to cooperate with the Company must submit statements on compliance with the rules of ethics, human rights, environmental protection and labour law, including health and safety.

Any contracts entered into by the Company contain relevant provisions, including permission for an audit to be conducted by or on behalf of LW Bogdanka S.A. In 2017, statements relating to such issues as respect for human rights were submitted in all (100%) tender procedures (except for small procedures carried out without tender where such statements are not required).

Moreover, a document titled "Supplier Code of Conduct of LW Bogdanka S.A." has been in force at the Company since 2015. The Code regulates issues related to:

- observance of the law, including respect for human rights,
- prevention of discrimination,
- relations in the workplace,
- occupational health and safety,
- natural environment protection,

It is expected of the subcontractors working in LW Bogdanka S.A. that their employees comply with the Code of Ethics applicable at the Company. They may also provide information on any potential infringement of the Code.



Human Rights issues

Key ratios

Agreements with human rights respect clause [%] 2017	
Percent of agreements with human rights respect clause	100.0%
Employee training [number of people] 2017	
Number of employees who were given training in the respect for human rights	276
Penalties for infringement of human rights and employee rights [PLN] 2017	
Total value of penalties imposed on the Company for infringement of human rights and employee rights	0.0

Risk of human rights infringements at the Company

LW Bogdanka S.A. strictly complies with the provisions of Polish law, including those concerning the respect for human rights, which is guaranteed under the Constitution and the relevant acts of parliament. Irrespective of the above, the scale of the Company's activities and a substantial number of employees are factors which may entail the risk of an infringement of human rights, especially in the area of dignity and respect for the rules of diversity. Despite the fact that additional internal regulations have been introduced in that respect (Code of Ethics) and numerous educational campaigns have been carried out, the Company has limited influence on discriminatory incidents among employees. The Company manages the risk by continuously monitoring any incidents of human rights infringement and by organising the relevant training sessions and information campaigns. Ethics Representative has been appointed at the Company to ensure compliance with the Code of Ethics. All employees who have been discriminated against or have witnessed any discriminatory incidents may seek support from the Ethics Representative and enforce their rights in that respect.





Anti-corruption issues

Anti-corruption measures

Just like in the case of issues related to the respect for human rights, the anti-corruption policy is mainly included in the Code of Ethics. In addition to the above-mentioned code, the issue in question is addressed in the following documents:

- “Fraud Prevention and Fraud Risk Management Policy was introduced at LW Bogdanka S.A.”
- “Guidelines on Accepting and Handing Gifts at LW Bogdanka S.A.”.

The Code of Ethics adopted at LW Bogdanka S.A. at the mine sets out ethical values and principles which should be followed in the Company, and presents, in an intelligible manner, any potential undesirable situations. The Code addresses issues related to non-competition, conflict of interest, as well as anti-bribery and anti-corruption measures.

Ethical standards described in the Code of Ethics applicable at the Company define Corruption as an act (action) which is strictly prohibited for all the employees, irrespective of their position within the Company’s organisational structure. Under the Code, corruption is an action which involves the following:

- promising, proposing or providing by any person, directly or indirectly, any undue benefits to an employee – irrespective of their position and function at the Company – or to any other person, in exchange for an action or omission in the context of their professional duties
- demanding or accepting by a Company employee, directly or indirectly, any undue benefits, for the employee or for any other person, or accepting offers or promises of such benefits, in exchange for an action or omission in the context of their professional duties
- abuse of powers or failure to comply with the obligations by a Company employee resulting in damage to the Company’s interest, committed in order to obtain any undue benefits for the employee or for any other person.

The Company has also introduced Guidelines on Accepting and Handing Gifts. It is prohibited to accept and provide gifts other than advertisements.

Designated Company employees (including Management Board members and employees of promotion-related departments) may only provide and accept minor gifts such as promotional and advertising gadgets (usually objects marked with a brand logo or an advertising slogan) which are commonly exchanged in

business relations (e.g. a calendar, notebook, pen or an invitation to a customary meal), with a proviso that such a gift may not have an influence on any decision on whether to establish and how to develop cooperation with an entity represented by the person who has provided or the person who has accepted the gift.

An issue that is very similar to the subject of corruption is the concept of a conflict of interests. A conflict of interests may result from personal relations, financial relations, additional activities of an employee or other commitments that may affect impartiality during a decision-making process regarding the choice of a potential business partner for the Company. Such matters are also regulated in the Company’s policies.

Every new employee is informed of the Code of Ethics during induction training sessions, receives a copy of the Code, and fills in a Conflict of Interest Report which is subsequently provided to the Director of the Management Office.

Just like in the case of respect for human rights, the person responsible for monitoring and managing anti-corruption issues in the Ethics Representative. The Audit and Internal Control department serves an auxiliary function in this respect.

In 2017, the Ethics Representative did not record any instances of abuse. It is important that employees maintain integrity in different areas of our business, report and resolve borderline situations, apply high moral standards, etc. in order to eliminate any conflicts of interests, etc., build a positive image of the Company, show good manners and maintain mutual trust, in both personal relations and in the workplace.

Key ratios

Corrupt practices [number]		2017
Number of confirmed instances		0

Anti-corruption training [%]		2017
Percentage of employees who were given anti-corruption training		1.8%
Percentage of employees who were informed of the anti-corruption policies and rules		100.0%
Training in corruption and abuse prevention	Two-day training on “Corruption Risks”	

Anti-corruption risks

Risk of corruption incidents among Company employees

It is unacceptable that any actions take place at LW Bogdanka S.A. that have any characteristics of corrupt practices or that any situations occur that raise doubts as to the impartiality of the employees during the process of granting contracts. Irrespective of the procedures and regulations adopted by the Company in that respect, there is a limited risk that situations related to corruption may occur. Employees that are highly vulnerable to such situations are those who work in departments with direct contact with the representatives of external entities that may derive specific economic benefits as a result of establishing cooperation with the Company.

The Company manages the risk through various of internal regulations and procedures under which the employees are obliged to maintain impartiality while performing their professional duties and prohibited from accepting and economic benefits from external entities. Training sessions in that regards are also organised. In addition, the relevant internal units (Audit and Internal Control Department and Ethics Representative) carry out periodical audits and inspections.





Glossary





- **CSR** – Corporate Social Responsibility
- **Net debt/ EBITDA** – product of net debt (i.e. the total current and non-current liabilities less cash and equivalents) to EBITDA
- **EBIT** – earnings before interest and taxes
- **EBITDA** – EBIT increased by depreciation and amortization and impairment losses
- **Fairness opinion** – a report from the valuation of a business, a statement certifying that the price of a given transaction is fair
- **GRI** – Global Reporting Initiative
- **Audit Committee** – a team within the Supervisory Board responsible for overseeing the company's financial reporting
- **LWB** – Lubelski Węgiel Bogdanka S.A.
- **IFRS** – International Financial Reporting Standards
- **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
- **Respect Index** – an index of socially responsible companies
- **SIN** – Non-Financial Information Standard
- **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

Artur Wasil	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, 22 March 2018



Thank you!