Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the first half of 2018

Bogdanka, 13 September 2018

14.6%
Share in the hard coal market in Poland

18.4%
Share in the thermal coal market in Poland

24.7%
Share in the supplies of coal to the commercial power sector in Poland

	Change H1 2018/H1 2017	Change Q2 2018/Q2 2017
REVENUE	-5.1%	+4.7%
EBIT	-47.1%	-14.2%
LENGTH OF EXCAVATIONS MADE	+31.3%	+56.5%
EBITDA	-12.6%	+8.9%
NET PROFIT	-40.8%	-1.7%
COAL SALES (AMOUNT)	-6.9%	+4.4%
NET PRODUCTION	-0.9%	+13.5%

1. Summary of operational activities

SUMMARY OF OPERATIONAL ACTIVITIES

Good financial and operating results in the second quarter counterbalance the first quarter results of this year

In H1 2018 the LW Bogdanka Group generated:

- net revenue of **PLN 856.0 million** – **decrease by 5.1% y/y**
- EBITDA of **PLN 278.6 million** – **decrease by 12.6% y/y**
- net profit of **PLN 66.4 million** – **decrease by 40.8% y/y**

The graph below presents factors having impact on financial results of the LW Bogdanka Group:

+	−
• high level of sales in Q2 2018 • stable level of inventories • increase in prices of thermal coal (y/y) on the market	• low production and sale of coal in Q1 2018 • lower yield in H1 2018

the LW Bogdanka Group improved **the ratio of debt plus employee liabilities/EBITDA by almost 11.8%** from the level of **0.68 to the level of 0.60**, which is related to an improvement of the Group's cash situation and the optimisation of capital expenditure.

In H1 2018 in comparison to the same period of 2017, the Group retained the extraction of thermal coal **at a similar level of 4.5 million tonnes of coal**, i.e. less by 0.9% y/y. The above production level was achieved due to significant intensification of the production in the second quarter this year. The Group sustains its declared production plan for the whole 2018 at a level not lower than 9.0 million tonnes.

2. Organisation and business activities of the LW Bogdanka Group

Basic information and key events in H1 2018

Key events in the first half of 2018 and events until the publication date

Q1 2018

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

On 3 January 2018, the Parent 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 EU,
- audit the Company's financial statements and the Group's consolidated financial statements for 2018-2020 prepared in accordance with the IFRS EU.

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 Parent'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 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 Parent signed an Annex to the Long-Term Agreement for the sale of thermal coal with the Zakłady Azotowe Puławy Group. As a result of concluding the Annex, the value of the Agreement amounts to a total of PLN 1.340 million net, of which the value in 2018-2022 is PLN 577 million net.

Concluding an agreement relating to salary payments with trade unions

On 28 February 2018 the Parent entered into an agreement with trade unions regarding the level of remunerations in 2018. The parties have agreed that in 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 to the employees 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 worked until 2011. In 2012 Mr Wasil started work at PRG Linter S.A. where he performed the role of Mining Director, and from 2014 performed the role of the President of the Management Board.

Conclusion of a settlement by the Parent with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras

On 29 March 2018, the Parent signed a settlement which resolves all disputes between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras. On 6 June, the Regional Court in Lublin issued a decision under which it fully confirmed the settlement reached by the parties. The fact that the settlement was recognised in the accounting books of the Company had a positive influence on the net financial result for the period of six months of 2018 – the amount of that influence was PLN 25,449,000.

Redemption of Bonds by a Bank under a Bond Issue Programme

On 30 March 2018 the Parent redeemed 750 series BOGD02 300318 bonds, with a par value of PLN 100,000 each, issued under the bond issue programme on 23 September 2013. The bond issue programme was established based on an agreement concluded with Bank PKO S.A. The bonds were redeemed as scheduled, by way of payment, for each Bond, of a sum of money equal to the par value of the Bond.

Q2 2018 and events until the publication date

Management Board's recommendation regarding the allocation of the net profit for 2017 to the reserve capital of the Parent

On 16 May 2018, the Management Board of the Parent adopted a resolution on filing a motion to the Annual General Shareholders Meeting regarding distribution of the net profit generated by LW Bogdanka S.A. in 2017 amounting to PLN 673.3 million, and to allocate it to the reserve capital in full amount. The funds are to secure the Group's cash standing and to serve as a basis for the planned investments in the Ostrów Field in the perspective after 2025. On 18 May 2018, the Supervisory Board of LW Bogdanka S.A. positively assessed the proposal of the Management Board.

The Annual General Shareholders Meeting of LW Bogdanka S.A.

The Annual General Shareholders Meeting of LW Bogdanka S.A. adopted a resolution pursuant to which the net profit generated by the Parent in 2017 in the amount of PLN 673,281,183.53 was allocated to the reserve capital.

All persons representing LW Bogdanka S.A. (Management Board and Supervisory Board Members) in 2017 were granted discharge in respect of their duties.

Redemption of Bonds by a Bank under a Bond Issue Programme

On 2 July 2018 the Parent redeemed 750 series BOGD01 300618 bonds, with a par value of PLN 100,000 each, issued under the bond issue programme on 23 September 2013. The bond issue programme was established based on an agreement concluded with Bank PKO S.A. Bonds were redeemed in a timely manner.

Conclusion of an Annex to the Long-term Agreement with ENEA Wytwarzanie Sp. z o.o.

On 11 September 2018, the Parent concluded an Annex to Long-Term Agreement No. UW/LW/01/2012 with ENEA Wytwarzanie Sp. z o.o. with registered office in Świerże Górne.

As a result of concluding the Annex, the value of the entire Long-Term Agreement in 2017-2036 currently amounts to PLN 16.439 million; to note, in 2017-2025 the value of the Long-Term Agreement will be PLN 10.459 million.

THE LUBELSKI WĘGIEL BOGDANKA GROUP

% of votes at the Shareholders Meeting in Subsidiaries

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

Company name	Parent's share in the share capital		Share capital	Main activity
	31 Mar. 2018	30 Jun. 2018 and 13 Sep. 2018		
Łęczyńska Energetyka sp. z o.o.	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000 divided into 82,677 shares of PLN 1,000 each	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
EkoTRANS Bogdanka sp. z o.o.	100.00% (100 shares)	100.00% (100 shares)	PLN 100,000 divided into 100 shares of PLN 1,000 each	comprehensive transport organisation and recovery of spoil arising during coal shale washing and cleaning
RG Bogdanka sp. z o.o.	100.00% (10,000 shares)	100.00% (10,000 shares)	PLN 500,000 divided into 10,000 shares of PLN 50 each	services, deliveries and mining works for LW Bogdanka S.A.
MR Bogdanka sp. z o.o.	100.00% (20,000 shares)	100.00% (20,000 shares)	PLN 1,000,000 divided into 20,000 shares of PLN 50 each	repairs, regeneration and production of steel constructions, providing services to LW Bogdanka S.A.

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

Changes in the structure of the LW Bogdanka Group

In H1 2018 there were no changes in the structure of the LW Bogdanka Group or the Group's organisational and capital relations to other entities. In the period in question there were no changes to the structure of the LW Bogdanka Group that would result from merger of business entities, acquisition or sale of the Group's undertakings, long-term investments, division, restructuring or discontinuation of activities.

Basic information and development strategy of the LW Bogdanka Group

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 Parent's activities

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

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

- Act of 15 September 2000 – Commercial Companies Code (Dz. U. [*Journal of Laws*] of 2017, item 1577, as amended)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. [*Journal of Laws*] of 2017, item 2126, as amended)

The founder of the Company is the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

Development strategy of LW Bogdanka S.A.

On 9 February 2017 the Parent 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 the Enea Group and the efficiency leader in the mining sector with the highest work safety standards.

Mission

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

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

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

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

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

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

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

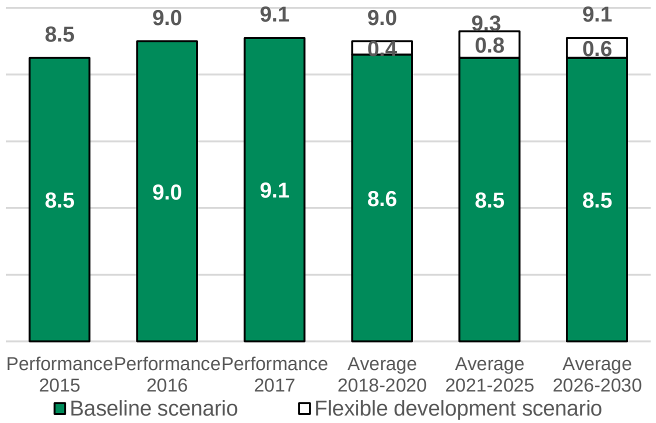
During the implementation of the Strategy, the Management Board will focus on the key areas of operations of the Parent, which include:

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

- feasibility study of construction of an integrated gasification cycle (IGCC) system for production of fuel for power generation within the ENEA Group
- programme to continue improving work safety
- utilisation of the advanced high-performance face complex
- continuation of the "Smart Mine" programme
- effective waste rock management
- operator's services provided by LW Bogdanka S.A., offered on the basis of high technological and management standards.

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

Planned coal production in 2015-2030 [million tonnes]



CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

Dividend policy

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

Development Strategy of the LW Bogdanka Group

Development strategy of the subsidiaries

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

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

- extension of the Water Treatment Station (WTS) – due to the technological needs of LW Bogdanka S.A., there are plans to perform in 2018 two further tasks, i.e. cooling fire-extinguishing water tank and installing the air-conditioning water
- modernization of boiler house in Bogdanka. As part of this task it is planned to continue in 2018 the upgrade of the pump system of the boiler house (Stage III) and construction of the transformation station, as well as the NN switchgear for the purposes of the 29 MW boiler house.
- construction of a new boiler unit in the boiler house in Bogdanka – due to the necessity to ensure uninterrupted supply of thermal energy to customers (guaranteeing an additional back-up generating capacity for mitigating the risk of breaks in heat generation); there are plans to build a new boiler unit in the boiler house. The parameters of this boiler unit will be selected with due account taken for the applicable environmental protection laws (2019-2020)
- modernisation of sanitary wastewater treatment station in Nadrybie. In 2018 it is planned to complete works related to the modernisation of sanitary wastewater treatment station in Nadrybie for the purpose of Nadrybie and Stefanów facilities.
- modernisation of the main heat line Bogdanka - Łęczna. This task will be performed with a view to reducing significant transmission losses and protecting the network against gradual corrosion, thus making them available for use in subsequent years.

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

The Company’s strategic goals include:

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

The Company's main objectives include:

- modernisation and repairs of mining machinery and equipment
- manufacture general purpose steel structures in accordance with all formal and legal requirements
- works related to manufacture and regenerate mass products used by the Parent
- provision of underground operation maintenance services to meet the needs of the Parent
- repair and adaptation services for the office and administrative infrastructure on the surface
- perform mining work on holidays at the Parent with a view of keeping the continuity of production.

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

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

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

In 2018 and onwards the Company is planning to conduct business operations related to mining waste management. The Company aims to recover and recycle about 2.7 million tonnes of waste generated by dry and wet coal processing annually.

INVESTMENT PROJECTS

Tasks completed in H1 2018

The plan for the first half of 2018 included the following task groups:
- building new excavations and modernisation of the existing ones in the Bogdanka, Nadrybie, Stefanów and Ostrów Fields
- maintenance of machinery, including the purchase of machines and equipment and their repair and upgrade
- other development investments

Maintenance of machinery

Upgrades and repairs of machines and equipment – the amount of PLN 16,671,000 was assigned for the renovation of a scraper conveyor and modernisations of Bevex suspended locomotives, renovation of the longwall coal-cutting machine, renovation of a wall conveyor and a wall bottom conveyor.

Purchases of machines and devices subject to assembly – PLN 3,828,000 was spent for the purchase of finished goods, and PLN 1,283,000 for the purchase and assembly of screens, cooling equipment, etc.

Other development investments

Development of the mining waste treatment facility in Bogdanka – PLN 2,280,000 was assigned, inter alia, for the purchase of land and for the performance of an agreement for construction and assembly works in relation to development was signed – development Stage I, part 2.

MCPP replacement projects – PLN 2,630,000 was assigned for modernisation of steel structures, modernisation of stone loading unit and installation of electromagnetic separators.

Power, telecommunications and mechanical installations – PLN 2,460,000 for the expansion of the power engineering networks.

Construction and modernisation of facilities and installations – PLN 423,000 was spent for modernisation of rooms.

ICT

Tasks pursued as part of the following projects: the "Integrated Production Management System" and the "Smart Solutions Mine" are continued.

Transport

Renewal of car fleet.

Other

Natural environment protection – PLN 1,075,000 was spent under an agreement for mine water discharge.

Capital expenditure for excavations incurred by the Parent in H1 2018

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	15,240	61,456	144,904	83,448
Basic excavations	linear	2,491	-	56,652	56,652
Modernizations and developments of mining workings	linear / natural	896.2	-	24,705	24,705
Cross-cuts	-	1,081	-	-	-

Selected items of capital expenditure in the LW Bogdanka Group

[PLN '000]	PTE 2018	Performed H1 2018	Performed H1 2018 [%]
New excavations and upgrades of existing ones	291,365	164,805	56.6%
Maintenance of machinery	142,890	21,782	15.2%
Obtaining new licences	3,900	31	0.8%
Ostrów Field	645	184	28.5%
Longwalls	40	0	0.0%
Other development investments	28,021	8,494	30.3%
ICT	6,957	895	12.9%
Administration	60	40	66.7%
Transport	170	166	97.6%
Other	11,322	1,275	11.3%
TOTAL CAPEX in LW Bogdanka S.A.	485,370	197,672	40.7%
Łęczyńska Energetyka sp. z o.o.	9,500	1,444	15.2%
Other Subsidiaries	1,142	335	29.3%
TOTAL CAPEX AT THE LW BOGDANKA GROUP	496,012	199,451	40.2%

The above amount of capital expenditure includes capitalised borrowing costs of PLN 2,730,000.

Thermal coal prices

Situation on the international market

CIF ARA coal prices:

- The average coal price in Q2 2018 was USD 89.75/t, and was higher by 17.2% than the average price in Q2 2017 (USD 76.58/t) and higher by 4.3% than the average price in Q1 2018 (USD 86.09/t).

Inventories in ARA ports:

- 5.7 million tonnes of inventories as at the end of June 2018 - more by 29.5% compared to the end of March 2018 (4.4 million tonnes).

FOB BP coal prices:

- The average coal price in Q2 2018 was USD 83.71/t, and was higher by 18.0% than the average price in Q2 2017 (USD 70.96/t) and higher by 1.2% than the average price in Q1 2018 (USD 82.75/t).

China

- Production of coal in H1 2018 was 1.7 million tonnes +0.1 y/y.
- Imports in H1 2018 was 146.0 million tonnes and was higher by 9.9% y/y.

USA

- Production of coal in Q2 2018 was 167.2 million tonnes (less by 1.5% y/y), in H1 2018, 340.5 million tonnes coal were produced (-2.3% y/y).
- Consumption was 143.9 million tonnes in Q2 2018 (-5.0%), totalling in H1 2018 at 296.3 million tonnes (-4.0%).
- Exports in Q2 2018 were 26.9 million tonnes, i.e. more by 36.9% y/y.

Russia

- Production of coal in Q2 2018 amounted to 104.1 million tonnes (more by 6.0% y/y), in total for H1 2018 production was 209.4 million tonnes (+5.7% y/y).
- Coal exports in H1 2018 increased by 3.0% y/y and amounted to 93.1 million tonnes.
- Exports of Russian coal to Poland in Q2 2018 were 3.5 million tonnes, which represents an increase by 118.8% compared to Q2 2017 (1.6 million tonnes).

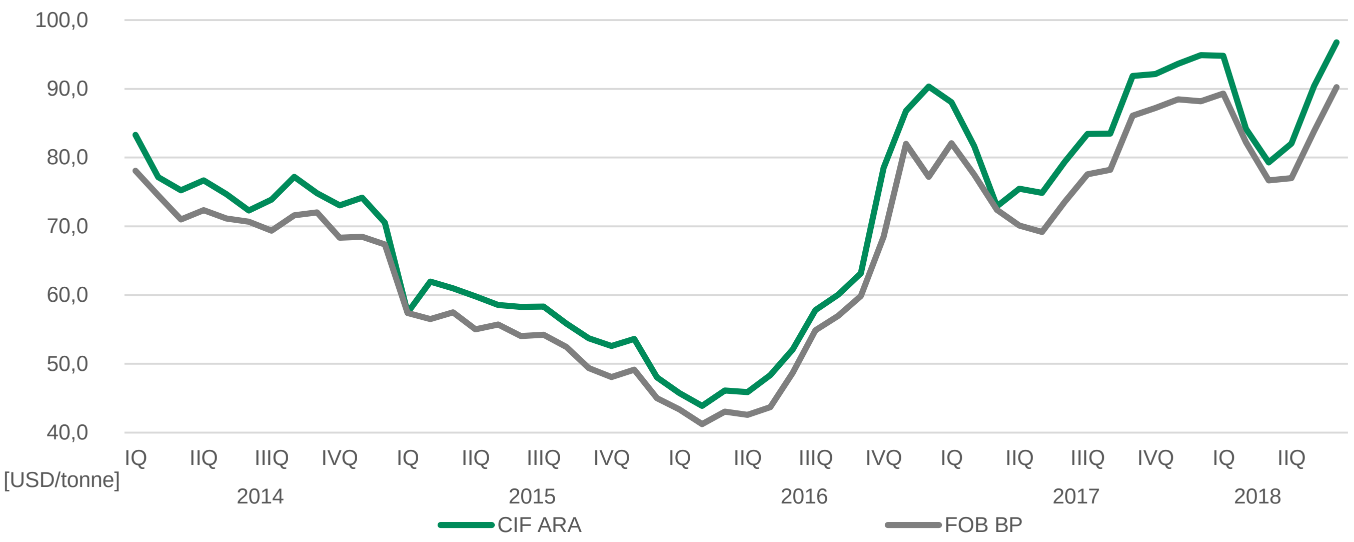
Prices on the domestic market

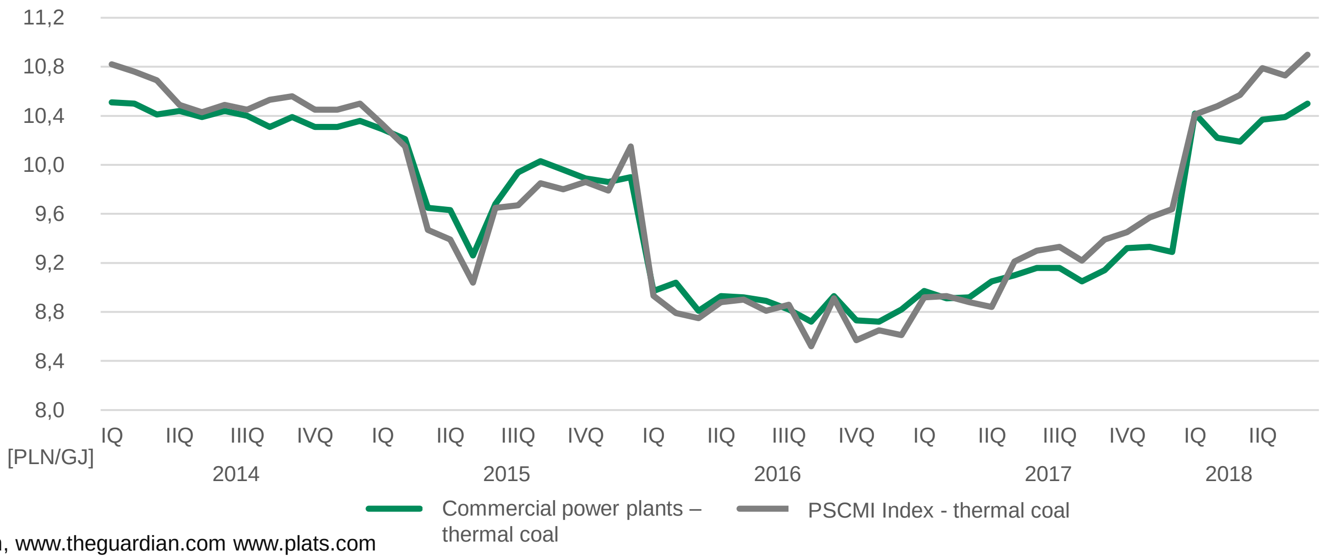
Fine thermal coal prices:

- In Q2 2018, the average price for commercial power plants was PLN 10.42/GJ, and comparing to Q1 2018 (PLN 10.28/GJ) the price increased by 1.4%.
- Dynamics of increases in average prices, comparing Q2 2018 to Q2 2017 (PLN 9.10/GJ), was 14.5%.
- Average heating value of fine coal for commercial power plants was about 21.9 GJ /tonne.
- Price of fine coal for commercial power plants declined by 0.1% between January 2014 and June 2018.

PSCMI Index:

- In Q2 2018, the average price based on the PSCMI index was PLN 10.81/GJ. Compared to Q1 2018 the price increased by 3.1%, comparing to Q2 2017 the PSCMI index price increased by 18.5%.



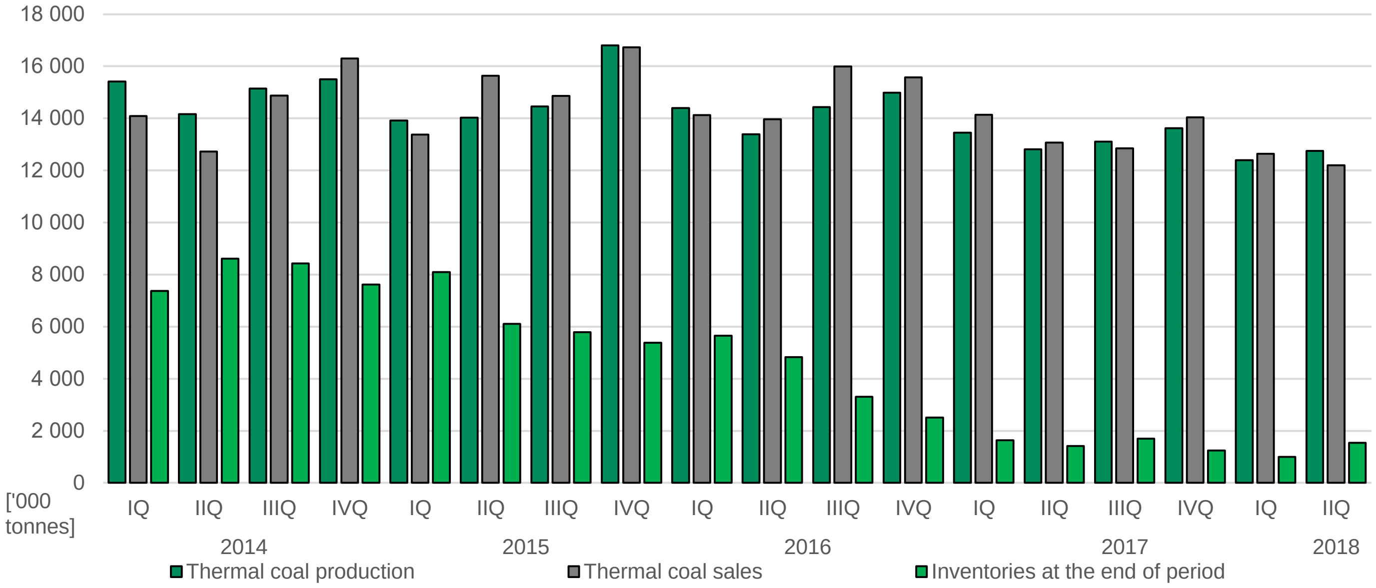


sources: Argus Media, Argus Coal Daily International, www.bloomberg.com, www.theguardian.com www.plats.com

Production, sales and inventories of thermal coal in the domestic market

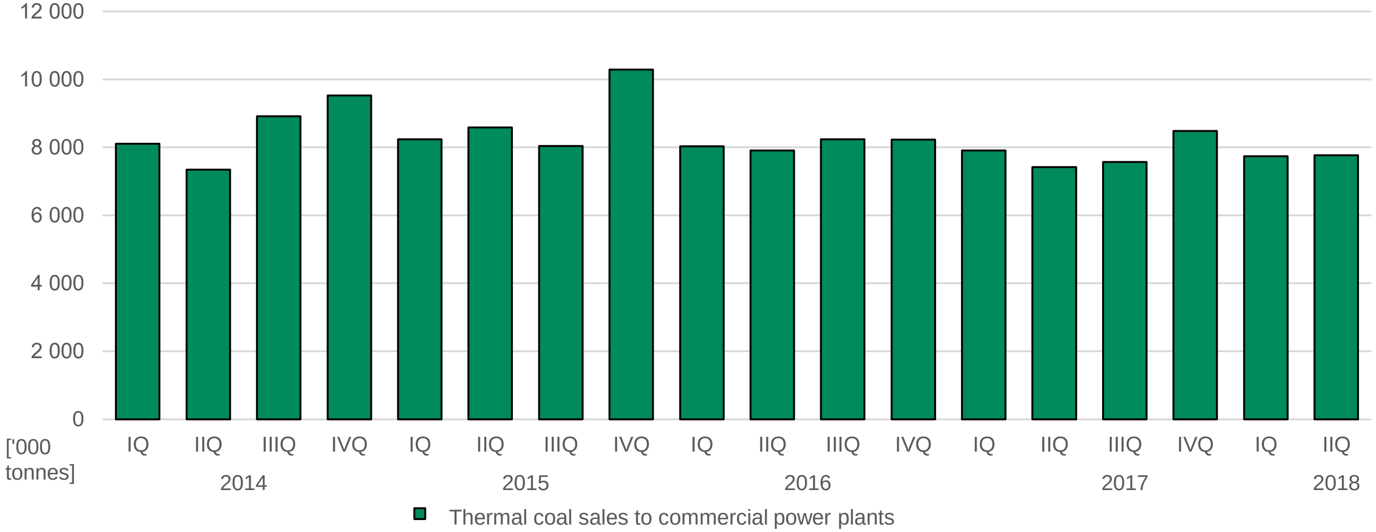
Situation in Poland:

- Thermal coal production in Q2 2018 was 12.8 million tonnes, and stood at the same level as in Q2 2017.
- Thermal coal sales in Q2 2018 were 12.2 million tonnes – a decrease by 6.9% (13.1 million tonnes) compared to the same period of 2017.
- Inventories of thermal coal sales as at the end of June 2018 were 1.5 million tonnes, which in comparison to Q2 2017 represents an increase by 7.1% (1.4 million tonnes).
- Exports of thermal coal sales in Q2 2018 amounted to 0.3 million tonnes and were lower by 70.0% (1.0 million tonnes) compared to the same period of 2017.
- Imports of thermal coal sales in Q2 2018 were 3.8 million tonnes, which is an increase by 123,5% (1.7 million tonnes) compared to Q2 2017.



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

- Sales of thermal coal to the commercial power plants in Q2 2018 were 7.8 million tonnes.
- Increase by 5.4% (0.3 million tonnes) compared to Q2 2017.



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

Electricity generation in Poland

Electricity generation - total

- In H1 2018, the production of electricity totalled about 81,272 GWh, which represents a decrease of 1,741 GWh (-2.1%) versus the same period of 2017.

Power generation from coal

- Coal was the main fuel used to produce electricity. In H1 2018 it was used to produce 64,151 GWh. This means a decrease by 2,408 GWh (-3.6%) compared to the same period of 2017.
- In H1 2018 coal accounted for almost 79% of total electricity production in Poland, but its share in the fuel mix went down by 1.3 p.p. in comparison with H1 2017.

Power generation from hard coal

- Hard coal served for producing electricity of 39,957 GWh (down by 0.1% y/y).
- After several years of drops, hard coal share increased in the fuel mix components. And in H1 2018 was, with regard to the whole electricity production, 49.2%.

Power generation from lignite

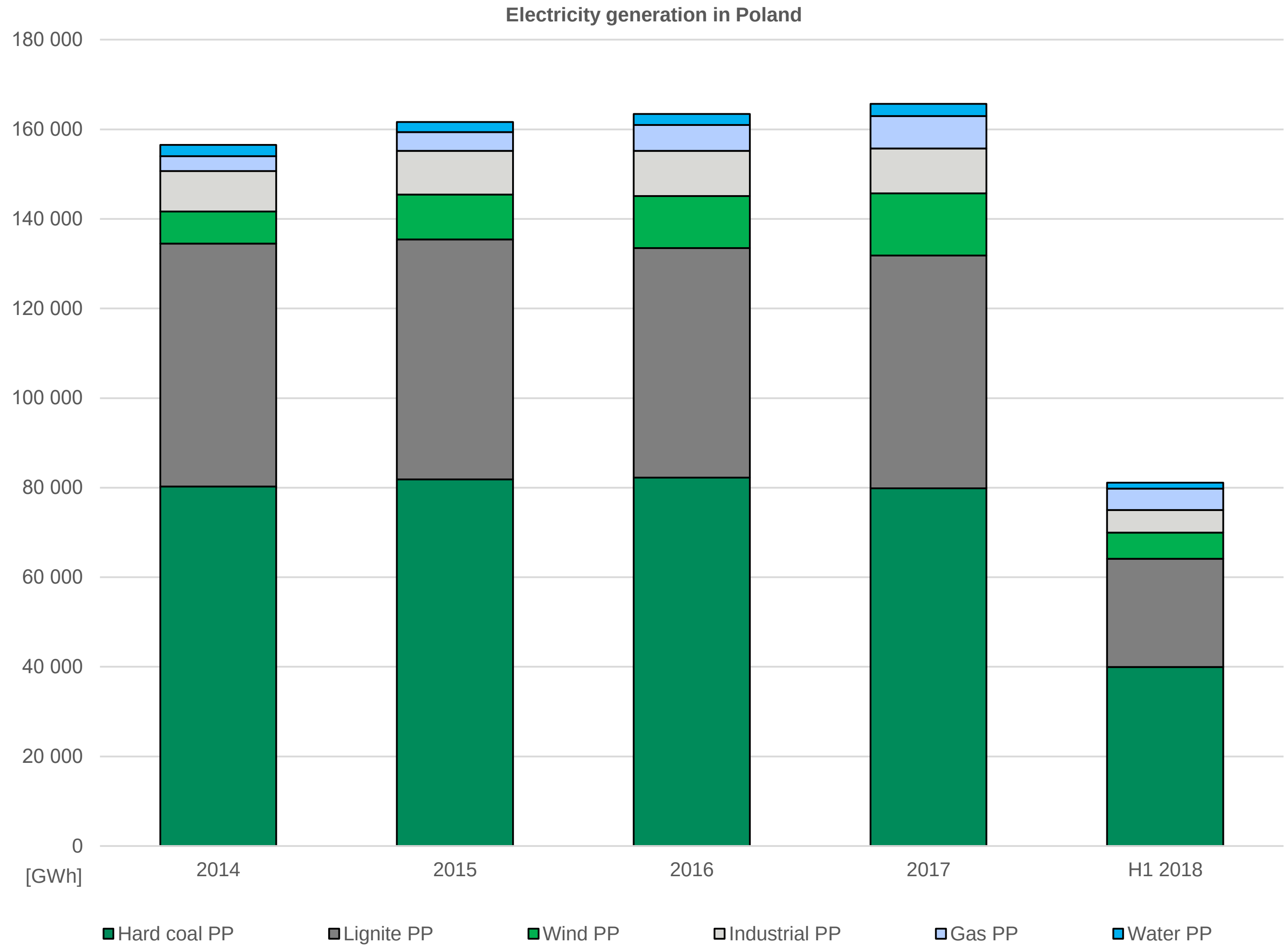
- Lignite was used to produce 24,194 GWh of electricity (8.9% less than in H1 2017).

Power generation by wind farms

- Wind farms produced 5,830 GWh of electricity, which represents a decrease of almost 12.9% in comparison with H1 2017. Wind made up about 7.2% of electricity production.

Power generation by gas-fired power stations

- Gas power plants produced 4,789 GWh of electricity, which was an increase of 51.0% compared to H1 2017. Production of energy in gas power plans achieved the highest growth dynamics y/y.



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

Main risks to the Group by category

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

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

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

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

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

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

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

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

Plans of the Ministry of Economy concerning enterprises operating in the hard coal mining and power engineering sector have a significant influence on the market position of the LW Bogdanka Group. On 23 January 2018, a “Polish Hard Coal Mining Programme” was adopted, covering the period until 2030. It assumes that the Polish economy will be based on hard coal and will consume – depending on the adopted scenario – from 56.5 to as much as 86 million tonnes of had coal. These assumptions give a positive sales perspective, which thus means retaining the production level by the Group. Regardless of the above, one should not forget about a possible change in approach to mining in Poland. Such an approach may result both from a change in internal conditions and from environmental protection requirements imposed by international institutions

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

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

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

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 and a necessity to increase the level of import. However average prices of thermal coal in Poland in 2018 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 level | low | **medium** | high

Risk associated with the imposition of coal excise tax

The provisions of the Excise Tax Act came into force on 2 January 2012. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act provides for an extensive range of excise tax exemptions which cover, among other things, electrical power generation. However, the act has also resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.
Nevertheless, the risk to the Group is limited, because the Parent sells most of its coal volumes for electrical power generation purposes.
Countermeasures: providing excise tax training to the employees, co-operating with reputable tax advisors, requesting tax authorities to issue individual tax rulings, actively participating in the legislation process, introducing provisions to trade contracts that enable the transfer of a potential excise tax burden onto the buyer in case excise tax is imposed on the transaction.

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

Interest rate risk

LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o. are parties to financial agreements based on variable interest rates. The risk refers also to current debt, as well as new loans to be contracted and existing loans to be refinanced. An increase in interest rates may bring about a growth of finance costs of the Group, and consequently, have an adverse effect on the financial results (alternatively, a possible decrease in interest rates may cause the Group’s finance costs to fall, and therefore, bring a positive effect on the financial results).
The risk may potentially increase if the share of debt financing grows, in particular given an adverse EU sentiment to coal market (increase in margins on debt). Countermeasures: monitoring and control of debts.

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

Risk associated with changes in exchange rates

The risk within the Group mainly concerns the Parent, and it relates to purchases (denominated in foreign currency) of specialist equipment which is provided only by foreign manufacturers. It may also occur when coal is exported abroad.
Countermeasures: entering into forward transactions.

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

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

Considering that the date of closing the whole bond issue programme is approaching (bonds redemption by the Parent), and that the term of the current account overdraft is coming to an end, the Parent is planning measures related to obtaining debt financing in the form of an overdraft in order to ensure that its current liquidity is not jeopardised. For more information refer to page 20 of the Report.
The Group’s current interest-bearing debt (loan and the issued bonds) of the total value of PLN 245,074,000, as disclosed as at 30 June 2018 accounted for 8.3% of its equity and 5.9% of the balance-sheet total.

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

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

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

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

These include:

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

The consequences may include:

- temporary suspension of operating activities, losses relating to property or financial assets
- 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 level | low | **medium** | high

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 CO^2 emissions. These limitations or introduction of stringent standards or emission limits of CO^2, SO_x, NO_x 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 further decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW Bogdanka Group, and in consequence, may have a negative impact on its financial results.

Countermeasures:

- active involvement in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers;

- monitoring any amendments to the Energy Law or other acts, and assessing their potential impact on the Group’s operations.

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

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

The trend of falling demand for thermal fine coal, which has been present in the market for a certain time finally stopped in mid-2016 and a reverse trend can be observed now. The policy of the Minister of Energy towards coal mining sector, lower pressure on the renewable energy sources and reduced mining in the Silesian mines are factors which are favourable for the development of demand on the domestic market from the part of the Polish energy sector. A positive influence on the reduction of demand-related risk is also exerted by higher demand for coal on the part of international markets, e.g. Ukraine. Furthermore, the risk for the Group 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 Group’s coal for commercial power production relating to existing and prospective power units within the area of its operations.

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

Risks directly associated with the Group's operations

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

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

Restriction of the mining capacity may bring the following consequences:

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

Countermeasures: As a result of measures taken by the Parent, in November 2017 a mining licence was obtained for the "Ostrów" area, which allowed the held resources to be doubled and ensured raw materials base for the following years of the mine's operations. Further steps to obtain exploration licences for the K-6 and K-7 area.

Risk level **low** medium high

Technical and technological risk

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

Countermeasures:

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

Risk level low medium **high**

Risk associated with high costs of technologies applied by the Group

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

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

In 2015, the exploitation of mining of seam 391 began; the seam is located about 100 m below seam 382. Along with the depth increases the difficulty of maintaining the excavations (rock mass pressures increase), the natural temperature of rock, as well as certain other dangers. This may altogether increase coal mining costs.

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

Risk level low medium **high**

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.

Risk level **low** medium high

Key customer risk

Vast majority of the thermal coal produced by the Group is sold to Enea Group companies and to a relatively small group of large contracting parties. Therefore, there is a risk that the reduction or termination of cooperation with a key customer of the Group could have an adverse effect on financial results.

This risk has been significantly mitigated thanks to synergies worked out within the Enea Group and the conclusion in 2016 of long-term agreements with key customers ensuring purchases for at least 5 years. The Group also continues its efforts to attract new, smaller customers.

Risk level low **medium** high

Risk of difficulties in supplies performed through rail transport

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

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

Risk level low medium **high**

Risks directly associated with the Group's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the LW Bogdanka Group payable by its customers and the surplus of Group's receivables in comparison to liabilities. Trade debtors and other current accounts receivable of the Group accounted for 6.3% of the carrying value and 30.3% of its revenue for the last 6 months of 2018. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 77.7%.

Countermeasures:

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

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

Risk associated with the strong position of the trade unions

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group associating 62.75% of employees (there are four trade union organisations at LWB associating 70.80% of the employees). Strong position of the trade unions creates a risk that the costs of remuneration may increase in the future in connection with negotiated wage agreements, and in consequence adversely affect financial results achieved by the LW Bogdanka Group. Furthermore, possible protests and/or strikes organised by the trade unions could affect the Group's operating activities.

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

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

Risk associated with retaining and attracting human resources for the Group

Due to ongoing works on amendments to the Collective Bargaining Agreement which will consider the change of work organisation and remuneration, there is a risk that a larger number of experienced employees entitled to retirement benefits will leave the Group.

These are especially valuable employees because of their knowledge and experience. Their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and in turn, disrupt the mild gradual staff turnover.

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

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

Key supplier risk

The specific nature of operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under concluded agreements. This also applies to specialised providers of mining services, because due to 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 level | **low** | medium | high

Risk of unfavourable/inappropriate contractual terms being concluded

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

Countermeasures:

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

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

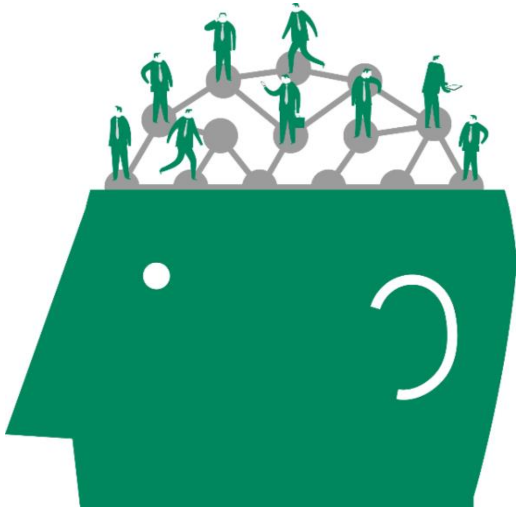
Risk of price fixing by the suppliers

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

Countermeasures:

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

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



Financial risks and risks associated with environmental protection

Liquidity risk

Important factors in the assessment of insolvency risk are:

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

In the case of the Group, cash at hand as at 30 June 2018 amounted to PLN 215,888,000. The current liquidity ratio for the Group is 1.28, and quick liquidity ratio is 1.11. In 1H 2018, net flows from operating activities generated by the LW Bogdanka Group stood at a level of PLN 215,895,000 with capital expenditure of PLN -357,048,000 (CFFO PLN - 141,153,000).

Countermeasures: long- and short-term analyses and projections to help determine cash needs. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses. Furthermore, in order to optimise cash management, the Parent uses, and will continue to use, debt financing in the form of an overdraft credit facility. For more information refer to the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group prepared as at 30 June 2018, Note 14.

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

Insurance risk

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

In previous years, an insurance review was carried out at the Group, which in turn lead to updating the existing insurance programme. The implementation of the programme was completed in December 2016 when the Parent renewed its insurance coverage with respect to underground property, surface property, and third party liability for damage caused in connection with business activity. Furthermore, considering that as of 25 May 2018 the General Data Protection Regulation of the European Parliament and of the Council (EU) 2016/679 (GDPR) became effective, the Group considers expanding the scope of insurance protection to cover instances of infringement resulting from the above Regulation.

Countermeasures: The Group holds insurance policies covering the risk of loss and damage to underground property with an insurance limit which is one of the highest on the Polish market, third party liability insurance against damage caused in connection with business activity or property in its possession, above-ground property insurance.

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

Risk associated with reclamation and mining damage

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

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

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

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

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

In particular with respect to the following:

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

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

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

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

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 is sufficient for up to 4 years of storing. The Parent is conducting works connected with increasing the height of the existing yard (to 250 MASL), and continues measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment will involve the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste.

Countermeasures: The Group performs works connected with increasing 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 and has commenced design works relating to Stage 2 development.

The Parent is taking intense actions related to the recovery and utilisation of mining waste.

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

Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land). All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas. There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. These investment restrictions may require higher investment expenditure and therefore may affect the financial result.

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

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

Risk associated with proceedings and legal environment

Risk of change to tax laws

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

Countermeasures:

- monitoring any amendments to tax laws
- training courses for employees so as to ensure that employees are as competent as possible in this area
- comparing any new issues with the latest tax rulings and relevant case law
- using the services of consulting companies
- following the Transfer Pricing Policy, which lays down the fundamental conditions and principles for pricing the transactions concluded within the Group and the Tax Group (transactions concluded within the Tax Group also involve the obligation to apply prices on the arm's length basis).

Moreover the Parent and the subsidiaries RG Bogdanka, MR Bogdanka and Ekotrans Bogdanka make part of the Tax Group. The Tax Group agreement was concluded on 28 September 2016 and in accordance with this agreement the Tax Group was created for a period of 3 years, starting from 1 January 2017. The agreement was registered by Head of the Lublin Tax Office on 25 October 2016.

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

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

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

In 2018 fiscal proceedings were pending against LW Bogdanka S.A. 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 Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group prepared as at 30 June 2018, Note 17.

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

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

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

Countermeasures: using the services of legal advisors and consulting companies, and seeking opinions of various bodies specialising in a given subject matter. Where applicable, the Company also files for binding interpretations of law.

Despite these measures, it is not possible to entirely eliminate the risk. However, the Management Board believe such risk to be substantially limited.

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

Risk of violating the stock exchange disclosure requirements

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

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

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

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

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Company as non-current assets.

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

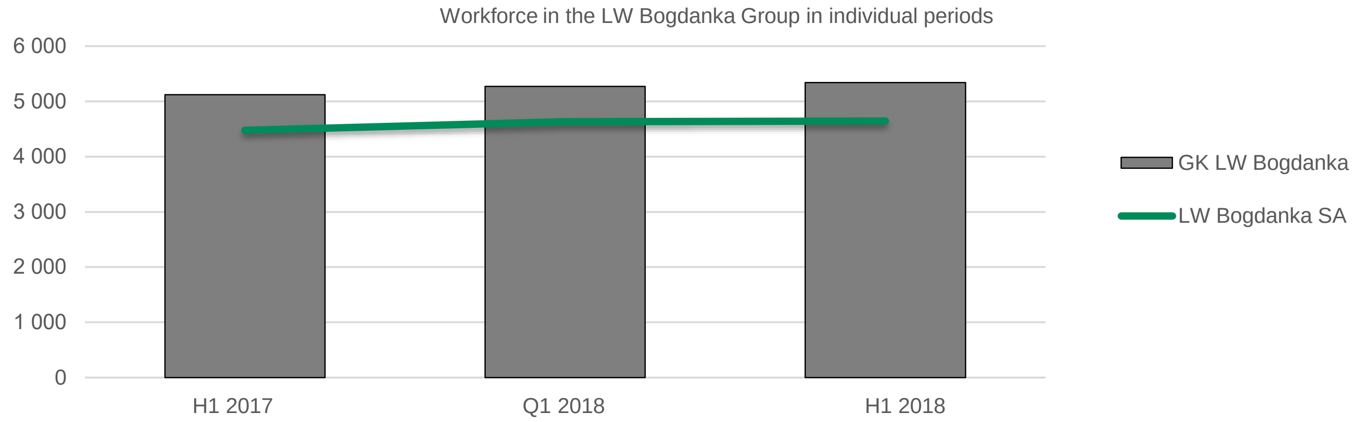
During the customs and tax inspection with respect to CIT for 2012 and 2015, which started at the end of 2017 and was in course during 2018, the tax authority challenged the correctness of settlements made by the Parent with respect to tax treatment of costs of wall reinforcements and costs of making movable excavations. In consideration of the above, the Parent disclosed the amount of tax interest on that account (i.e. PLN 10,198,000) potential contingent liability. For more information refer to the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group prepared as at 30 June 2018, Note 27.

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

Workforce changes

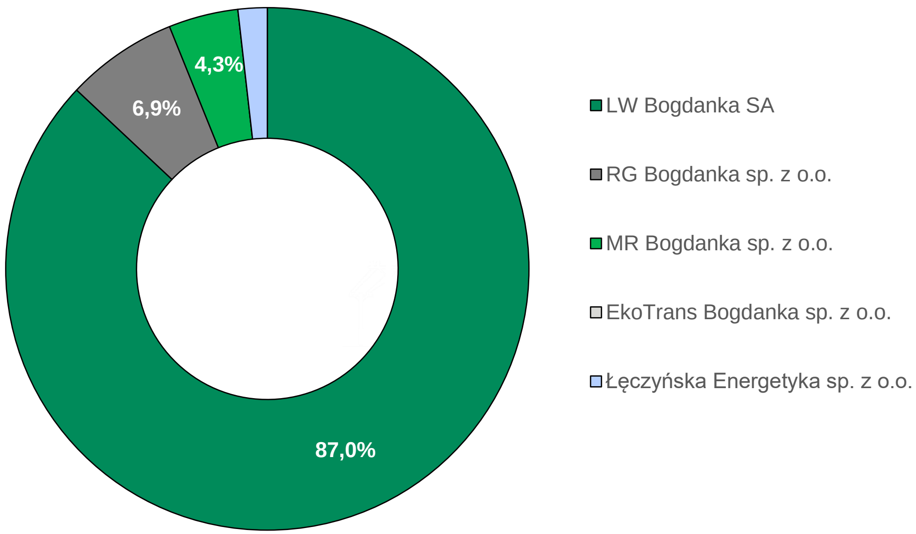
Workforce at the Group
At the end of H1 2018, employment at the Group increased by 68 FTJs, i.e. by 1.3% compared to the level of employment at the end of Q1 2018. Comparing the workforce at the end of H1 2018 to the level of employment at the end of H1 2017, it increased by 217.2 FTJs.
The turnover in employment primarily results from the necessity to adjust the manpower to the current production needs of the Group.

Workforce of the Parent
In H1 2018, 266 employees were hired to LW BOGDANKA S.A., while 91 employees left the Company.



WORKFORCE	30 Jun. 2017	31 Mar. 2018	30 Jun. 2018	Workforce structure at the Group	Change H1 2018/ H1 2017	Change H1 2018/ Q1 2018
Workforce at the Group calculated per full-time employees						
Total workers	3847.0	3,992.0	3,997.0	-	3.9%	0.1%
Underground workers	2,905.0	3,061.0	3,057.0	-	5.2%	- 0.1%
Surface workers	942.0	931.0	940.0	-	-0.2%	1.0%
Full-time employees underground	313.0	316.0	326.0	-	4.2%	3.2%
Full-time employees on the surface	316.6	323.2	322.2	-	1.8%	-0.3%
Total underground	3,218.0	3,377.0	3,383.0	-	5.1%	0.2%
LW Bogdanka S.A.	**4,476.6**	**4,631.2**	**4,645.2**	**87.0%**	**3.8%**	**0.3%**
RG Bogdanka sp. z o.o.	332.0	331.1	369.1	6.9%	11.2%	11.5%
MR Bogdanka sp. z o.o.	216.6	216.1	229.6	4.3%	6.0%	6.2%
EkoTrans Bogdanka sp. z o.o.	2.0	1.0	1.0	0.0%	-50.0%	-
Łęczyńska Energetyka sp. z o.o.	96.5	93.5	96.0	1.8%	-0.5%	2.7%
LW Bogdanka Group	**5,123.7**	**5,272.9**	**5,340.9**	**100.0%**	**4.2%**	**+1.3%**

Workforce structure at the LWB Group broken down into companies



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

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

The dominant values cherished by the LW Bogdanka Group are as follows: honesty, professionalism and responsibility. These values ensure the harmonious development of the Group pursuing its economic objectives in line with the expectations of the society and the requirements of the environment.

The Parent is consistently implementing the “Corporate Social Responsibility Strategy for 2018-2021”. In a nutshell, the approach to social responsibility management can be defined as follows: ”The highest level of workforce safety, protection of local community and natural environment. Sustainable development, based on a dialog with Stakeholders and growth in value of the Company”. Actions undertaken within the Strategy correspond to the following four priorities:

- Ensure the highest work safety level,
- Limit the impact of operations on the safety of local natural environment,
- Ensure safety and stimulate development of local community,
- Follow transparent and responsible management practices.

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

ISO 26000

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

Management approach

The LW Bogdanka Group’s operations are based on an integrated system compliant with the following standards: PN-EN IS Integrated Enterprise Risk Management System (ERM) and IT Risk Manager – risk management system of the LW Bogdanka Group is based on policies and procedures such as: LW Bogdanka Group Corporate Risk Management Policy, Group Corporate Risk Management Model – ERM Procedures, LW Bogdanka Group Risk Register, LW Bogdanka Group Risk Map, List of Strategic Risks of the LW BOGDANKA Group, and Programs of Strategic Risk Mitigating Measures at the Group.

Integrated Management System – operational management at the LW Bogdanka Group is based on9001:2015, PN-EN ISO 14001:2015, PN-N-18001:2004. In addition, the occupational health and safety management system is compliant with British standard BS OHSAS 18001:2007.

In May 2018, a recertification audit was held to confirm the compliance with the following standards ISO 9001:2015, ISO 14001:2015, PN-N-18001:2004, OHSAS 18001:2007, as the validity of certificates binding so far issued by Bureau Veritas Certification Polska expired on 28 May 2018.

The team of auditors confirmed that the management system in place at the Company operates efficiently, allows it to achieve the set objectives, ensures completion of the pursued policy and gives the ability to comply with applicable requirements and regulations.

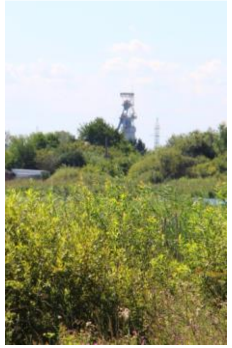
Ethics as component of the organisational culture

The existing Code of Ethics, which was for the first time published in 2011, is modified and improved on an ongoing basis in response to the constant monitoring of the Group’s situation and its activities. Currently the following documents are in effect: “Supplier Code of Conduct of LW Bogdanka S.A.”; “Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company’s Code of Ethics”; information regarding “Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes of Developing Accident Reports”.

Furthermore, an anti-mobbing training was made available to all employees at an e-learning platform.

Educational and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the “Bogdanka” corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognized in LWB. The Anti-Mobbing and Anti-Discrimination Guidelines for the LW Bogdanka Group were published in 2018.

Close to nature



In addition to activities related to meeting legal requirements as regards the protection of natural undertakes other pro-environmental initiatives . Together with the Polish Society for the Protection of Birds (OTOP), it created and manages the “Nadrybie” educational path , outlined around the Nadrybie Reservoir . The “Nadrybie” path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value which is protected by the Natura 2000 network. The trail was set out on the path with educational boards, a survey of the fauna and flora was conducted and a guide for self-sightseeing was published and made available to the public free of charge.

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

As a founder and co-organiser (along with the Polish Society for the Protection of Birds (OTOP)) of the Nadrybie educational path, the Bogdanka Group is developing it gradually – at the beginning of 2018 a promotional campaign was launched with a view to advertising the publishing of a new Guide to the path, which is an effect of efforts pursued in 2017.

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

Relations with the local community

From the very beginning of its existence, the LW Bogdanka Group has been supporting the local community, including a wide range of social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community. The Group also sponsors sporting and cultural activity. In its efforts to support health and safety, the Group supported Children’s Research Hospital in Lublin and a MONAR centre located in close vicinity to Bogdanka. The Bogdanka Group is also involved in educational activities related to autism, and has supported the participation of preschool children from Łęczna in the celebration of an International Autism Day and accompanying events.

The Solidary Miners Foundation

Fundacja Solidarni Górnicy

The Solidary Miners Foundation, which has been active since the end of 2013, was created to help former and current employees of the mine and their families, accident victims, or persons in a difficult situation.
Acting with an aim to fulfil its statutory objectives, the Foundation has financed surgeries, medical procedures, treatment, and rehabilitation, purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled.
Given that the Foundation has now the status of a public benefit organisation, it was possible, for the first time, to remit 1% of tax for the Foundation with the annual income tax settlement (for 2017).

Positive Twist – a continuing campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In Q1 2018 several hundred kilogrammes of plastic bottle caps were collected.

The employees of the Parent initiated the second issue of the Gold Rush project which involves “getting rid” of small coins (1, 2, and 5 grosz) sitting in the wallets. Participation in the project was the initiative of the mine’s Honorary Blood Donors Club. In 2017, a record-breaking, in the scale of the whole province, amount of coins was collected, i.e. almost 500 kg. The funds will be used to finance holiday trips, after school clubs or for those in care of the Lublin Branch of the Polish Red Cross, etc.

Other CSR projects and initiatives

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

Joint Social Initiatives Group - Górnictwo O.K. – is a project which aims to implement and communicate socially responsible actions, demonstrate the importance of the CSR strategy in achieving financial objectives of mining companies , and cooperate in the development of the standards for managing the process of exerting an impact on the local environment, market and employees.

Awards and accolades

Award for LW Bogdanka S.A. in the Report of the Responsible Business Forum “Responsible Business in Poland. Good Practice 2017”.

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

Dialogue with the stakeholders

The Group pursues its efforts to increase transparency and enable the stakeholders to participate in the process of creating of actions and strategy. For this purpose, LW Bogdanka S.A.:

- published the “Statement on non-financial data” with additional information on CSR ratios,
- organised a series of dialogues with the stakeholders (March 2018), in accordance with the AA1000 standard, allowing for a room for discussions on past and future goals of LW Bogdanka S.A. with respect to social responsibility,
- carried out an evaluation of the CSR Strategy for 2014–2017, the findings of which were taken into account in the process of updating the document.

3. Financial standing

Coal production and sales

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

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

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

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

Production, sales and inventories of coal

In the second quarter of 2018, the production of commercial coal in the Parent increased by 13.5% compared to the same period of 2017 and amounted to 2,424,000 tonnes.

In the period from January to June 2018, the production of commercial coal was 4,519,000 tonnes, i.e. it was less by 0.9% than in the same period of 2017. The amount of produced coal is a consequence of adjusting the production amount to the reported demand, the Parent's warehousing capability and geological conditions underground (which has impact on gross extraction of coal and its quality).

Production of commercial coal by the Parent.

['000 tonnes]	Q2 2017	Q2 2018	Change	Change %
Production of commercial coal	2,136	2,424	288	13.5%
['000 tonnes]	**H1 2017**	**H1 2018**	**Change**	**Change %**
Production of commercial coal	4,558	4,519	-39	-0.9%

Structure of commercial coal production by the Parent

[%]	Q2 2017	Q2 2018	H1 2017	H1 2018
Fine coal	98.3%	98.7%	98.3%	99.0%
Nut coal	0.4%	0.2%	0.6%	0.2%
Pea coal	1.3%	1.1%	1.1%	0.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

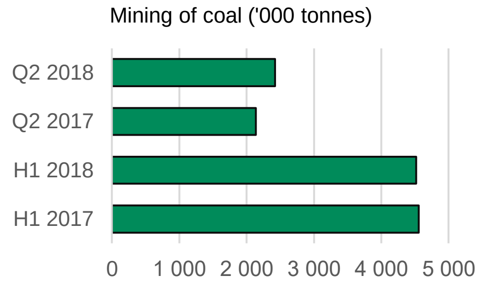
In all analysed periods the structure of production did not change significantly – thermal fine coal remained the dominant assortment (its share in the production was in the range of 98%-99%).

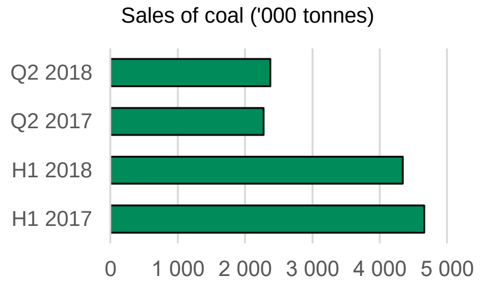
In Q2 2018, the sales of coal grew by 4.4% compared to Q2 2017.

In the period between January and June 2018, the sale of commercial coal amounted to 3,821,000, i.e. by 6.9% less than in the same period of 2017.

Commercial coal sales at the Parent

['000 tonnes]	Q2 2017	Q2 2018	Change	Change %
Sale of commercial coal	2,273	2,374	101	4.4%
['000 tonnes]	**H1 2017**	**H1 2018**	**Change**	**Change %**
Sale of commercial coal	4,662	4,341	-321	-6.9%



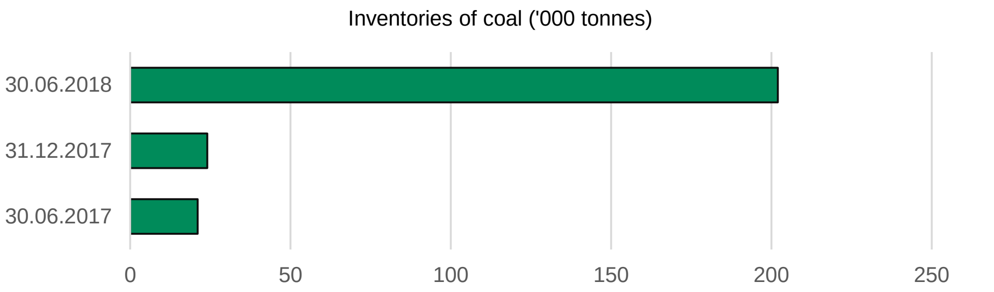


Inventories of coal, revenue and key customers

At the end of Q2 2018, the level of coal inventories at the Parent amounted to 202,000 tonnes, which means an increase by 178,000 tonnes, i.e. by 741.7% compared to the level as at 31 December 2017 and by 181,000 tonnes compared to the level as at 30 June 2017. The level of coal inventories presented at the end of Q2 2018 corresponds to 7 days of commercial coal production (on the basis of average daily production for six months).

Inventories of coal

['000 tonnes]	30 Jun. 2017	31 Dec. 2017	30 Jun. 2018	Change [%] 30 Jun. 2018 / 30 Jun. 2017	Change [%] 30 Jun. 2018 / 31 Dec. 2017
Inventories of coal	21	24	202	861.9%	741.7%



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

Revenue and key customers

In Q2 2018, the LW Bogdanka Group generated revenue in the amount of PLN 457,255,000, which represents an increase by 4.7% compared to Q2 2017. The revenue for January-June 2018 amounted to PLN 855,952,000 compared to PLN 902,086,000 in the analogous period of 2017, which means a drop in revenue by 5.1% y/y.

The main source of revenue on sales of the LW Bogdanka Group is the production and sale of thermal coal performed by the Parent. In each of the compared reporting periods this activity generates nearly 97% of the the LW Bogdanka Group's revenue.

In the consolidated annual financial statements for 2017 published by the LW Bogdanka Group, for presentation purposes, the value of revenue is reduced by the value of sold coal that was obtained by the Parent during drilling of excavations. Bearing in mind the above, the values indicated in the consolidated income statement for the period from 1 January to 30 June 2018 was adjusted by PLN 61,456,000, while in the same period of the previous year – by PLN 33,046,000.

More than 91% of coal sales (in terms of value) in the period from 1 January 2018 to 30 June 2018 was effected between the Parent and Enea Wytwarzanie sp. z o.o., Enea Połaniec S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty - Zakłady Azotowe Puławy S.A. and EDF Paliwa sp. z o.o. For the period from 1 January 2017 to 30 June 2017 the share of the above customers in revenue of the sales of coal was similar.

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

- Enea Wytwarzanie sp. z o.o. – Enea Group – more than 59% of share in the revenue
- Enea Połaniec S.A. – Enea Group (formerly: ENGIE Polska Energia S.A.) more than 23% of share in revenue.

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q2 2017	Q2 2018	Change	Change %	H1 2017	H1 2018	Change	Change %
Sale of coal	426,165	446,300*	20,135	4.7%	874,994	832,098	-42,896	-4.9%
Other activities	6,987	5,834*	-1,153	-16.5%	20,860	14,721	-6,139	-29.4%
Sale of goods and materials	3,768	5,121*	1,365	35.9%	6,232	9,133	2,901	46.6%
Total	**436,920**	**457,255**	**20,335**	**4.7%**	**902,086**	**855,952**	**-46,134**	**-5.1%**

*Presentation change compared to Q1 2018 as to the recognition of revenue regarding the transport service

In Q2 2018 revenue on other operations (which includes revenue of subsidiaries) were PLN 5,834,000 (1.3% of total revenue), compared to PLN 6,987,000 (1.6% of revenue) in the analogous period of 2017 (-16.5% y/y). A significant share in that group of revenue was held by:

- revenue of Łęczyńska Energetyka on sales of heat energy to external companies
- revenue on industrial services provided to companies performing works contracted by the Parent.
- revenue on lease of non-current assets.

In the period from 1 January 2018 to 30 June 2018, income on other operations were PLN 14,721,000 compared to PLN 20,860,000 in the same period of 2017. A decrease in revenue on sales of other products is primarily a result of starting to apply, as of 1 January 2018, of the new standard - IFRS 15, as a result of which only the margin on operations is disclosed (with no impact on EBITDA) with respect to the coal transport services ("przewoźne").

The share of revenue from the sale of goods and materials in Q2 2018 was comparable to that recorded for Q2 2017. In 2017 and 2018 (both Q2 and six months), the dominant position in this group of revenue was revenue from the sales of scrap by the Parent.

Revenue, suppliers at the LW Bogdanka Group and costs

Revenue - structure by product types

[%]	Q2 2017	Q2 2018	H1 2017	H1 2018
Sale of coal	97.5%	97.6%	97.0%	97.2%
Other activities	1.6%	1.3%	2.3%	1.7%
Sale of goods and materials	0.9%	1.1%	0.7%	1.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The activities of the Group are primarily concentrated in Poland. Both in 2018 and in 2017 the exports of goods and products were insignificant and included primarily sales of coal. In H1 2018 the share of exports in the total revenue was 0.01% (PLN 73,000), while in 2017 the figure was 2.8% (PLN 24,981,000).

Geographical structure of revenue

[PLN '000]	Q2 2017	Structure	Q2 2018	Structure	H1 2017	Structure	H1 2018	Structure
Domestic sales	436,920	100.0%	457,243	100.0%	877,105	97.2%	855,879	100.0%
Foreign sales	0	0.00%	12	0.0%	24,981	2.8%	73	0.0%
Total	**436,920**	**100.0%**	**457,255**	**100.0%**	**902,086**	**100.0%**	**855,952**	**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 the LW Bogdanka Group all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Parent.

The principal suppliers for the LW Bogdanka Group include companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of excavations, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity.

Between 1 January 2018 and 30 June 2018, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

Costs

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

Costs by type

Q2

In Q2 2018 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 517,026,000 (PLN +106,951,000 y/y), which means that they were higher by 26.1% than in Q2 2017. The increase in costs in the Q2 2018 was largely the result of higher value of depreciation and amortisation, outsourced services and higher material and energy consumption.

The value of depreciation went up by 25.8% (to PLN 99,321,000) – the value of depreciation of non-current assets and natural depreciation (increase in gross extraction, higher valuation of excavations valuation).

Total cost of materials and energy consumption went up by 43.8% compared to Q2 2017, and totalled PLN 150,341,000. In the period under analysis, the cost of materials used rose (the scope of preparatory works was higher - 10.8 km of galleries with redevelopments were completed in Q2 2018, compared to 6.9 km in the previous year, which represents an increase of 56.5%).

Compared to Q2 2017, the value of outsourced services in Q2 2018 went up from PLN 97,087,000 to PLN 126,070,000 (29.9%).

In the period under analysis, the Company recorded the highest increases in:

- costs of auxiliary works and work performed on Saturdays and Sundays,
- costs of rail coal transport,
- costs of repairs as well as mining and drilling services.

In Q2 2018, compared to Q2 2017, the value of employee benefits dropped by PLN 3,225,000. In the analysed period the salaries and wages along with overheads went up (average employment in Q2 2018 increased compared to analogous period of 2017), while the value of contributions to the Employee Social Benefits Funds dropped (different dates of transferring the contributions to the Employee Social Benefits Funds) and supplemental payroll also went down.

The value of taxes, fees and charges paid went up in Q2 2018 to PLN 8,651,000 from PLN 7,911,000 in Q2 2017 (the real property tax, exploitation fee and payments to the National Fund for the Disabled were higher).

The value of other costs went up from PLN 553,000 (Q2 2017) to PLN 14,671,000 (Q2 2018) – primarily due to taking out a long-term property insurance (item settled through accruals and deferrals).

Costs by type

Costs by type

[PLN '000]	Q2 2017	Q2 2018	Change	H1 2017	H1 2018	Change
Net production [in '000 tonnes]	2,136	2,424	13.5%	4,558	4,519	-0.9%
Sales [in '000 tonnes]	2,273	2,374	4.4%	4,662	4,341	-6.9%
Amortisation	78,973	99,319	25.8%	166,932	196,067	17.5%
Materials and energy consumption	104,532	150,341	43.8%	217,192	289,631	33.4%
Outsourced services	97,087	126,070	29.9%	197,325	240,851	22.1%
Employee benefits	120,205	116,980	-2.7%	236,178	262,331	11.1%
Entertainment and advertising costs	814	992	21.9%	3,054	3,261	6.8%
Taxes, fees and charges	7,911	8,651	9.4%	19,252	19,560	1.6%
Other costs	553	14,671	2,553.0%	1,382	15,567	1,026.4%
Total costs by type	**410,075**	**517,024**	**26.1%**	**841,315**	**1,027,268**	**22.1%**
Cost of own work	-59,984	-84,938	41.6%	-118,207	-146,527	24.0%
Accruals and deferrals	24,334	18,176	-25.3%	38,322	13,040	-66.0%
Value of coal obtained from excavations	-12,640	-32,849	159.9%	-33,046	-61,456	86.0%
Provisions and other presentation adjustments between costs by type and by function	-3,933	-6,202	57.7%	8,660	-2,354	-
Total production cost	**357,852**	**411,211**	**14.9%**	**737,044**	**829,971**	**12.6%**
Change in inventory of products	19,418	-6,968	-	16,716	-27,733	-
Costs of goods and materials sold	3,449	5,078	47.2%	5,813	9,081	56.2%
Own cost of sales, including:	**380,719**	**409,321**	**7.5%**	**759,573**	**811,319**	**6.8%**
Costs of products, goods and materials sold	351,384	376,026	7.0%	692,765	740,355	6.9%
Selling costs	8,559	10,226	19.5%	22,117	20,804	-5.9%
Administrative expenses	20,776	23,069	11.0%	44,691	50,160	12.2%

H1 2018

In the period between 1 January 2018 and 30 June 2018, LW Bogdanka S.A. incurred costs by type in the amount of PLN 1,027,270,000, i.e. by 22.1% (PLN 185,955,000) higher than in the same period of 2017. 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, employee benefits and amortisation/depreciation.

Total cost of materials and energy consumption went up by 33.4% compared to H1 2017, and totalled PLN 289,631,000. In the period under analysis, the cost of materials used rose, which is a consequence of higher scope of preparatory works - 19.7 km of galleries were completed (along with reconstructions) during 6 months of 2018, compared to 15.0 km in 2017, which represents an increase of 31.3%.

Compared to H1 2017, the value of outsourced services in H1 2018 went up from PLN 197,325,000 to PLN 240,851,000 (+22.1%).

In the period under analysis, the highest increases were recorded in:

- mining and drilling services (in respect of broader scope of preparatory works)
- works on Saturdays and Sundays, ancillary works
- repairs
- waste management (higher output).

In H1 2018, compared to H1 2017, the value of employee benefits increased by PLN 26,153,000. In the period under analysis, employee benefits increased as a consequence of the agreement signed with the trade unions, whereby a 5% increase and a payment of an incentive bonus were agreed upon. An increase in number of staff employed also increased: as at 30 June 2018, it was 4,645 persons and was higher by 168 people compared to 30 June 2017.

The value of depreciation went up by 17.5% (to PLN 196,067,000) – the main increase was recorded in the value of depreciation of non-current assets (reversal of impairment) and the value of natural depreciation.

The value of taxes, fees and charges paid in H1 2018 went up to PLN 19,560,000 from PLN 19,252,000 in H1 2017 – the exploitation fee and real property tax were higher, while payments to the National Fund for the Disabled dropped.

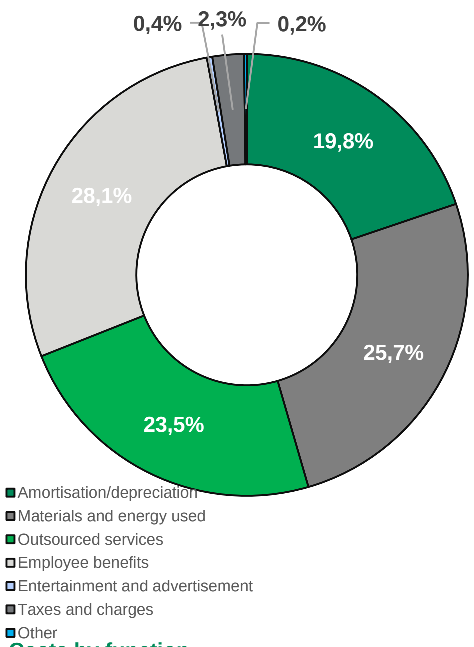
The value of other costs increased from PLN 1,382,000 (H1 2017) to PLN 15,567,000 (H1 2018), this is mainly related to the recognition of long-term property insurance policy; the item is settled through accruals and deferrals.

Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, we obtain own selling cost which for H1 2018 amounted to PLN 811,319,000. As compared to the previous year, it is higher by 6.8% (with a simultaneous year-to-year increase by 12.3% in the gross extraction and decrease by 6.9% y/y in the amount of coal sold).

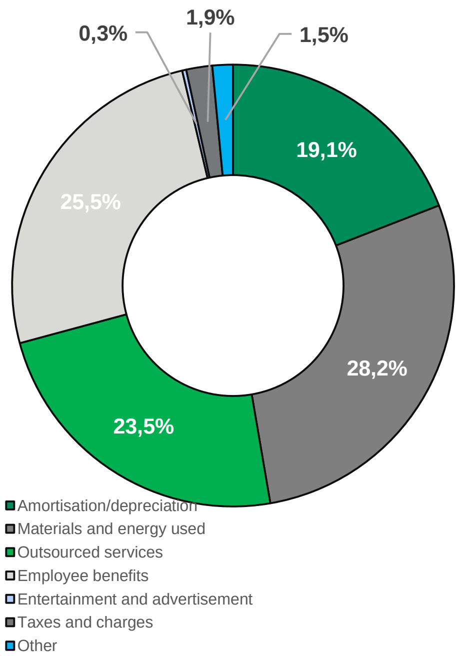
Costs by type and by function

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In H1 2018 (compared to the same period of the previous year) the following items went down: amortisation and depreciation costs dropped (to 19.1%), employee benefits (25.5%), outsourced services (23.5%), taxes and charges (1.9%) and the entertainment and advertising costs (0.3%). But the share of the consumption of materials and energy increased to 28.2% and other costs increased to 1.5%. Between 1 January 2018 and 30 June 2018 the consumption of materials and energy, outsourced services as well as employee benefits accounted for almost 77.2% of costs, while in the comparable period of 2017 it was almost approx. 77.4% of total costs of the Company.

Structure of costs by type H1 2017



Structure of costs by type H1 2018



Costs by function

Own cost of production sold (by function) in Q2 2018 was PLN 409,321,000 and was higher by 7.5% than the cost incurred in Q2 2017.
Costs by function in the period between January and June 2018 were higher by PLN 51,746,000 than in the analogous period of 2017, and amounted to PLN 811,319,000.

Costs by function

[PLN '000]	Q2 2017	Q2 2018	Change	H1 2017	H1 2018	Change
Net production [in '000 tonnes]	2,136	2,424	13.5%	4,558	4,519	-0.9%
Sales [in '000 tonnes]	2,273	2,374	4.4%	4,662	4,341	-6.9%
Costs of products, goods and materials sold	351,384	376,026	7.0%	692,765	740,355	6.9%
Selling costs	8,559	10,226	19.5%	22,117	20,804	-5.9%
Administrative expenses	20,776	23,069	11.0%	44,691	50,160	12.2%
Own cost of sales	**380,719**	**409,321**	**7.5%**	**759,573**	**811,319**	**6.8%**

Structure of costs by function

[%]	Q2 2017	Q2 2018	H1 2017	H1 2018
Costs of products, goods and materials sold	92.3%	91.9%	91.2%	91.2%
Selling costs	2.2%	2.5%	2.9%	2.6%
Administrative expenses	5.5%	5.6%	5.9%	6.2%
Own cost of sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Provisions

Provisions at the LW Bogdanka Group

Balance-sheet provisions

Item (PLN ‘000)	As at 30 Jun. 2017	As at 31 Dec. 2017	As at 30 Jun. 2018	Change Q2 2018/ Q4 2017	Change Q2 2018/ Q2 2017
Employee provisions	304,242	157,021	157,776	0.5%	-48.1%
Provision for real property tax	37,560	42,353	46,877	10.7%	24.8%
Provision for mine closure costs	117,420	114,448	124,529	8.8%	6.1%
Mining damage	4,241	4,434	4,233	-4.5%	-0.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	20,685	21,340	21,996	3.1%	6.3%
Other	12,736	17,643	12,365	-29.9%	-2.9%
TOTAL	**496,884**	**357,239**	**367,776**	**2.9%**	**-26.0%**

The total provisions as at 30 June 2018 amounted to PLN 367,776,000, which means an increase by 2.9% compared to the value as at the end of 2017. Employee provisions grew by 0.5% and amounted to PLN 157,776,000 as at 30 June 2018 compared to PLN 304,242,000 as at the end of June 2017, which was due to a release of a provision for coal allowance for retirees and pensioners and their families, as a consequence of repurchase of rights.

Change in provisions

The change in provisions in the second quarter of 2018 amounted to PLN 4,981,000 compared to PLN 28,714,000 in Q2 2017, while in H1 2018 it amounted to PLN 10,537,000, while in the same period of the last year the change equalled PLN 41,628,000.

Changes in provisions

Item	Change Q2 2017	Change Q2 2018	Change Q2 2018/ Q2 2017	Change H1 2017	Change H1 2018	Change H1 2018/H1 2017
Employee provisions	28,153	-77	-	37,261	755	-98.0%
Liabilities for real property tax	2,337	2,215	-5.2%	5,104	4,524	-11.4%
Provision for mine closure costs	-704	8,444	-	-3	10,081	-
Mining damage	-96	-113	17.7%	-199	-201	1.0%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	327	327	0.0%	643	656	2.0%
Other	-1,303	-5,815	346.3%	-1,178	-5,278	348.0%
TOTAL	**28,714**	**4,981**	**-82.7%**	**41,628**	**10,537**	**-74.7%**

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

Item	Change of provisions in Q2 2018	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet – increase in balance-sheet value of non-current assets	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	-77	3,322	906	-	5,852	-10,157
Provision for real property tax	2,215	1,493	722	-	-	-
Provision for the mine closure costs and reclamation	8,444	407	860	7,177	-	-
Mining damage	-113	-	-	-	-	-113
Provision for Social Insurance Institution (ZUS) claim for accident contributions	327	-	327	-	-	0
Other	-5,815	-3,164	-534	-	-	-2,117
TOTAL	**4,981**	**2,058**	**2,281**	**7,177**	**5,852**	**-12,387**

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

Item	Change of provisions for H1 2018	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	755	9,675	1,913	-	5,852	-16,685
Provision for real property tax	4,524	3,103	1421	-	-	-
Provision for the mine closure costs and reclamation	10,081	697	1,719	7,665	-	-
Mining damage	-201	-	-	-	-	-201
Provision for Social Insurance Institution (ZUS) claim for accident contributions	656	-	656	-	-	-
Other	-5,278	-3,261	145	-	-	-2,162
TOTAL	**10,537**	**10,214**	**5,854**	**7,665**	**5,852**	**-19,048**

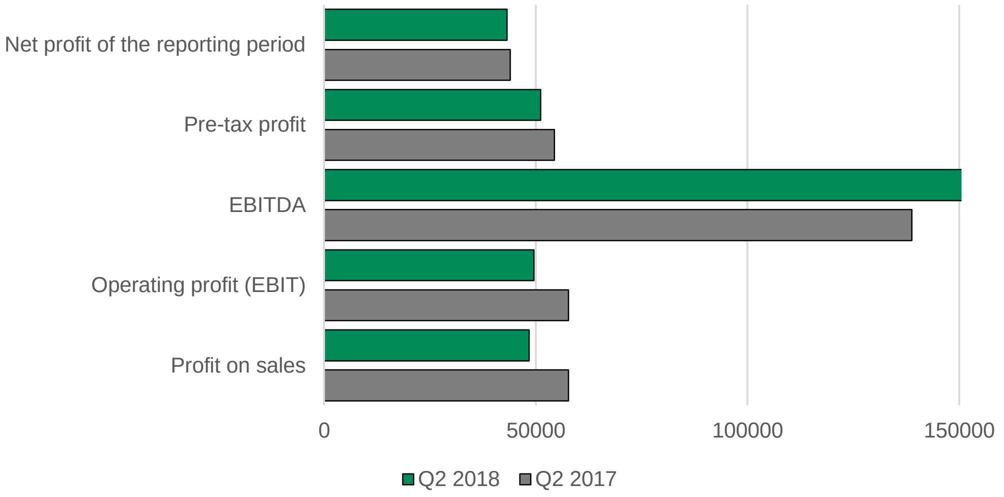
Financial highlights

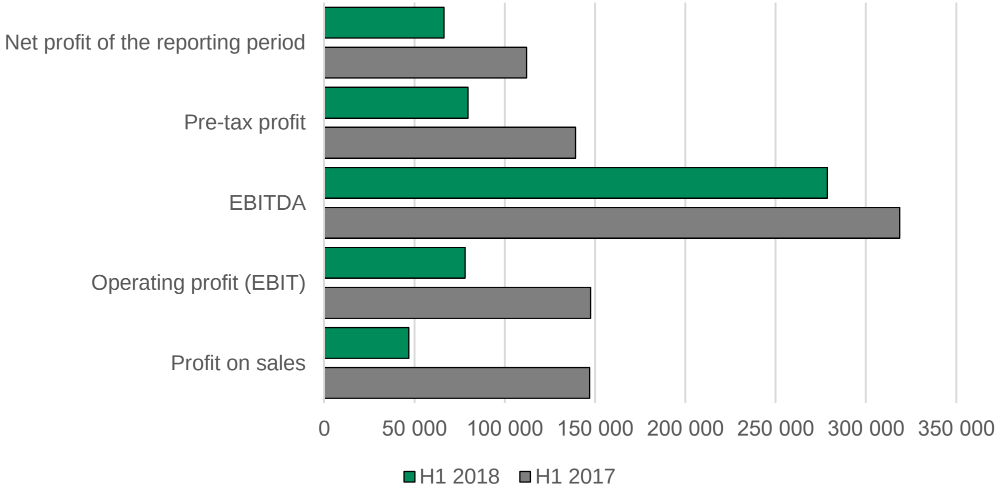
Selected financial data of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q2 2017	Q2 2018	Change	H1 2017	H1 2018	Change
Revenue	436,920	457,255	4.7%	902,086	855,952	-5.1%
Costs of products, goods and materials sold, selling and administrative expenses	379,163	408,843	7.8%	754,999	809,003	7.2%
Profit on sales	**57,757**	**48,412**	**-16.2%**	**147.087**	**46,949**	**-68.1%**
Gross sales margin	*13.2%*	*10.6%*	*-2.6 p.p.*	*16.3%*	*5.5%*	*-10.8 p.p.*
Other income	531	-812	-	1,759	30,360	1,626.0%
Other costs	154	327	112.3%	209	756	261.7%
Net operating profit	**58,134**	**47,273**	**-18.7%**	**148,637**	**76,553**	**-48.5%**
Other net profits/(losses)	-403	2,256	-	-1,163	1,485	-
Operating profit (EBIT)	**57,731**	**49,529**	**-14.2%**	**147,474**	**78,038**	**-47.1%**
EBIT margin	*13.2%*	*10.8%*	*-2.4 p.p.*	*16.3%*	*9.1%*	*-7.2 p.p.*
EBITDA	**138,815**	**151,147**	**8.9%**	**318,635**	**278,623**	**-12.6%**
EBITDA margin	*31.8%*	*33.1%*	*1.3 p.p.*	*35.3%*	*32.6%*	*-2.7 p.p.*
Finance income	1,554	5,361	245.0%	4,073	10,141	149.0%
Finance costs	4,854	3,769	-22.4%	12,254	8,529	-30.4%
Profit before taxation	**54,431**	**51,121**	**-6.1%**	**139,293**	**79,650**	**-42.8%**
Pre-tax profit margin	*12.5%*	*11.2%*	*-1.3 p.p.*	*15.4%*	*9.3%*	*-6.1 p.p.*
Income tax	10,486	7,937	-24.3%	27,169	13,297	-51.1%
Net profit for the financial year	**43,945**	**43,184**	**-1.7%**	**112,124**	**66,353**	**-40.8%**
Net sales margin	10.1%	9.4%	-0.7 p.p.	12.4%	7.8%	-4.6 p.p.

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





Financial highlights

Revenue
The value of revenue for Q2 2018 increased by 4.7% compared to the same period of the previous year, and amounted to PLN 457,255,000.
In H1 2018 the LW Bogdanka Group generated revenue at a level of PLN 855,952,000 compared to PLN 902,086,000 in the same period of 2017 (decrease by 5.1%).

Costs of products, goods and materials sold, selling costs and administrative expenses
In the second quarter of 2018 the costs of products, goods and material sold plus selling and administrative costs went up by 7.8% compared by the same period of the previous year and amounted to PLN 408,843,000. The increase is mainly related to payroll costs (in performance of the agreement signed with the trade unions) and costs of materials and outsourced services (higher gross extraction, broader scope of preparatory works).
In the first half of 2018 the discussed costs increased by 7.2% y/y.

Profit on sales
In Q2 2018 the Group generated profit on sales amounting to PLN 48,412,000, and in the same period of 2017 it was PLN 57,757,000.
In H1 2018 the Group generated profit on sales in the amount of PLN 46,949,000, versus PLN 147,087,000 in H1 2017.

Other income
In the second quarter of 2018 other income amounted to PLN -812,000 compared to PLN 531,000 a year before. In H1 2018 other revenue amounted to PLN 30,360,000 (which primarily refers to the settlement between the Company and the Mostostal Warszawa S.A. and Acciona Infraestructuras consortium), comparing to PLN 1,759,000 in the analogous period of the previous year.

Other costs and other net profits/losses
During 2018 and in 2017, other costs amounted to PLN 327,000 and PLN 154,000, respectively - the main component item of this group of costs were damages paid.
Other net profits in Q2 2018 amounted to PLN 2,256,000 compared to the loss of PLN -403,000 in Q2 2017.
Data for H1 2018 show an increase in other net profits to a total amount of PLN 1,485,000. In 2017, after the first six months, other net losses were generated in the amount of PLN 1,163,000.

EBIT
The operating profit in Q2 2018 amounted to PLN 49,529,000 compared to PLN 57,731,000 in Q2 2017. EBIT margin for Q2 2018 was 10.8%, i.e. it was lower by 2.4 p.p. than in Q2 of the previous year. EBIT margin in the first half of 2018 was lower by 7.2 p.p. compared to the same period of 2017, and accounted for 9.1%.

EBITDA
EBITDA in Q2 2018 increased by 8.9% compared to Q2 2017 and amounted to PLN 151,147,000. EBITDA margin in Q2 2018 equalled 33.1%, which shows an increase compared to the same period of 2017.
In H1 2018, the Group achieved EBITDA margin of 32.6%, i.e. 2.7 p.p. less year on year. EBITDA amount for H1 2018 was PLN 278,623,000 compared to PLN 318,635,000 in the same period of 2017.

Finance income
Finance income in Q2 2018 amounted to PLN 5,361,000. In H1 2018 finance income was PLN 10,141,000 (+149.0% y/y). The increase in revenue is attributable to the settlement between the Company and the Mostostal Warszawa S.A. and Acciona Infraestructuras consortium (PLN 2.7 million) and a release of a provision for possible interest on CIT (approx. PLN 3.6 million).

Finance costs
In the second quarter of 2018 finance costs amounted to PLN 3,769,000 and were lower by 22.4% than the costs in the same period of 2017.
The finance cost for H1 2018 amounted to PLN 8,529,000 compared to PLN 12,254,000 in H1 2017 (decrease by 30.4%). As at 30 June 2018 total debt of the Group amounted to PLN 245,074,000, including that of the Parent of PLN 226,401,000 compared the Group's debt of PLN 321,760,000 as at 30 June 2017. The drop results primarily from a decrease in interest-bearing debt.

Profit before taxation
In Q2 2018 the Group generated pre-tax profit of PLN 51,121,000 compared to PLN 54,431,000 in Q2 2017.
Profit before taxation for H1 2018 amounted to PLN 79,650,000 against PLN 139,293,000 in the same period of 2017.

Net profit for the financial year
In Q2 2018 the Group achieved net profit of PLN 43,184,000 compared to PLN 43,945,000 in Q2 2017.
The net profit of the Group for H1 2018 was PLN 66,353,000 compared to PLN 112,124,000 in the analogous period of the previous financial year.

Balance sheet

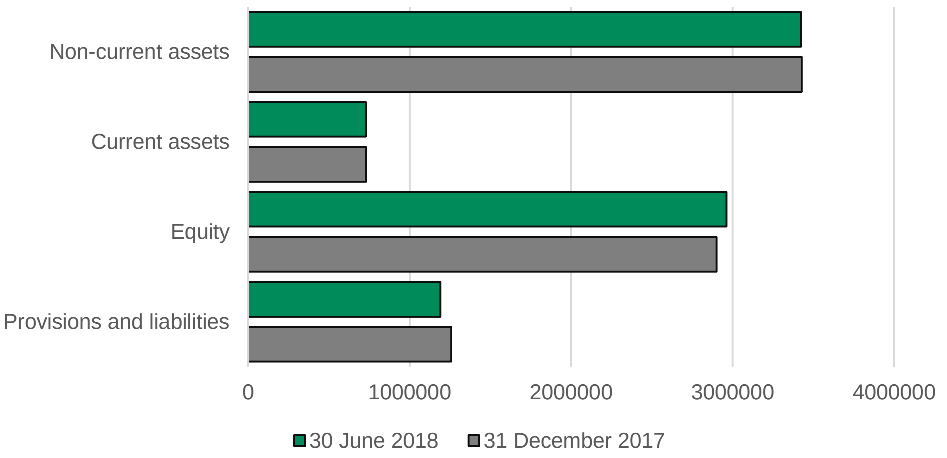
Balance sheet

Selected financial data

[PLN ‘000]	31 Dec. 2017	30 Jun. 2018	Change
Total assets	4,158,872	4,153,345	-0.1%
Return on Assets (ROA)*	16.8%	14.9%	-1.9 p.p.
Non-current assets	3,428,805	3,423,894	-0.1%
Current assets	730,067	729,451	-0.1%
Equity	2,901,527	2,963,140	2.1%
Return on Equity (ROE)	25.7%	21.2%	-4.5 p.p.
Provisions and liabilities	1,257,345	1,190,205	-5.3%

* - the calculations consider the average level of assets and equity
(as at 30 June 2018 + as at 31 December 2017)/2

Analysis of the consolidated statement of financial standing



Assets

The balance-sheet total as at 30 June 2018 went down to PLN 4,153,345,000, i.e. by PLN 5,527,000 less compared to the value as at 31 December 2017, with non-current assets going down by PLN 4,911,000 and current assets – by PLN 616,000. Within current assets, the value of inventories went up by 57.1%, trade and other receivables went up by 24.2%, with cash and cash equivalents along with other current investments going down in total by 15.6%.
As at 30 June 2018 ROA dropped by 1.9 p.p. and as at the balance-sheet date was 14.9%.

Equity and liabilities

The equity went up by 2.1%. It is mainly caused by recognising net total income in the amount of PLN 61,613,000 for H1 2018.
Provisions and liabilities went down by 5.3% compared to the value as at 31 December 2017, with current liabilities going down by 11.9% (main drop in financial liabilities related to bond issue), while non-current liabilities went up by 4.2% (primarily including growth in provisions for other liabilities and charges, liabilities on employee benefits and liabilities on account of the deferred income tax).
As at 30 June 2018, a decrease of 4.5 p.p. in return on equity compared to the end of 2017 was noted. As at 30 June 2017, the ratio was 21.2% versus 25.7% as at 31 December 2017.

Cash flow

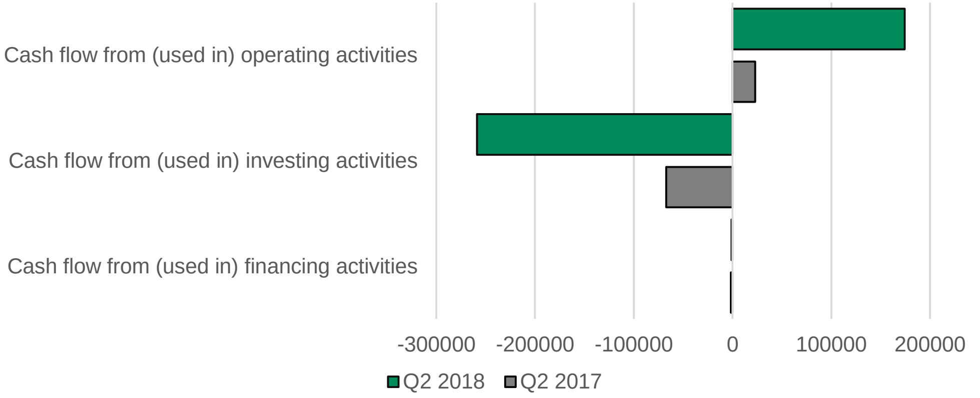
Cash flows

Consolidated cash flow

[PLN ‘000]	Q2 2017	Q2 2018	Change	H1 2017	H1 2018	Change
Cash flow from (used in) operating activities	22,981	174,336	658.6%	198,466	215,895	8.8%
Cash flow from (used in) investing activities	-67,167	-258,790	285.3%	-158,873	-357,048	124.7%
CFFO*	**-44,186**	**-84,454**	91.1%	**39,593**	**-141,153**	-
Cash flow from (used in) financing activities	-1,627	-954	-41.4%	-305,430	-77,887	-74.5%

*total cash flow from operating and investing activity

Analysis of the quarterly consolidated statement of cash flows

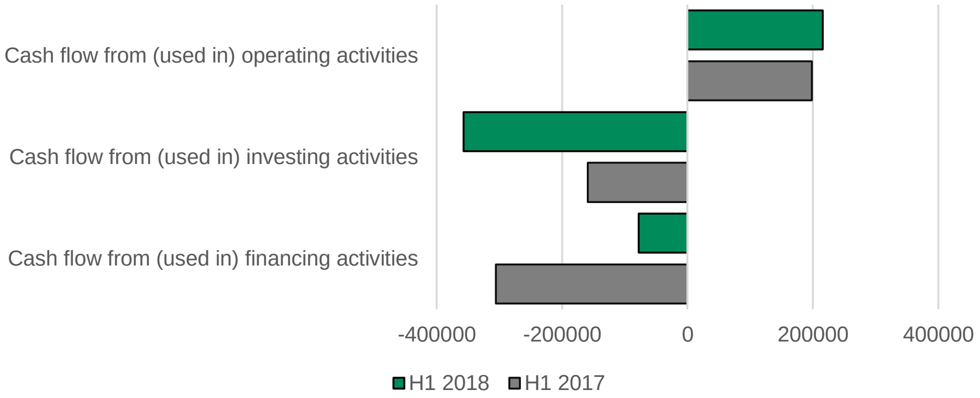


In Q2 2018 the Group generated net cash flow from operating activities higher by 658.6% than in Q2 2017 - it amounted to PLN 174,336,000 compared to PLN 22,981,000 a year before (longer payment terms for customers of coal in Q2 2017).

During H1 2018 LW Bogdanka Group generated cash flow from operating activities of PLN 215,895,000 (+8.8% y/y).

Cash flow from investing activities increased (in absolute terms) during Q2 2018 by 285.3% (to PLN -258,790,000) compared to the same period of 2017, which primarily results from the recognition in the cash flow from investing activities of cash in bank deposits with initial maturity of more than 3 months (in this case the amount of PLN 150 million disclosed as current investments). Cash flow from investing activities increased its value in H1 2018 by 124.7% relative to the analogous period of 2016.

Analysis of the interim consolidated statement of cash flows



Debt and liquidity ratios

Debt and financing structure

Debt ratios

[PLN '000]	31 Dec. 2017	30 Jun. 2018	Change
Overall debt ratio	30.2%	28.7%	-1.5 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.68	0.60	-11.8%
Net debt ratio/EBITDA*	-0.16	-0.18	12.5%
Debt to equity ratio	43.3%	40.2%	-3.1 p.p.
Fixed capital to non-current assets ratio	96.2%	98.5%	2.3 p.p.
Current debt ratio	17.9%	15.8%	-2.1 p.p.
Non-current debt ratio	12.3%	12.9%	0.6 p.p.

*Debt = non-current and current liabilities due to bond issue as well as credits and loans

Overall debt ratio

The overall debt ratio as at 30 June 2018 went down by 1.5 p.p. compared to 31 December 2017 and reached 28.7% (redemption of bonds).

The level of the Group's debts as at 30 June 2018 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. On the basis of medium and long-term forecasts, the financial needs of the Group are analysed in order to ensure liquidity and an appropriate level of cash.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q2 2018 compared to Q2 2017 dropped to 0.60. When comparing data as at 30 June 2018 to 31 December 2017, debt (including amounts payable to employees) fell more - in nominal terms, while the drop in EBITDA showed lower figure (cumulatively for the last four quarters).

Ratio net debt/EBITDA

The ratio describing the relation of net debt (the total of current and non-current interest-bearing liabilities less cash and equivalents) to EBITDA dropped from -0.16 as at 31 December 2017 to -0.18 as at 30 June 2018. The value of net debt dropped by approx. PLN 10 million comparing to December 2017.

Debt to equity ratio

Debt to equity ratio as at 30 June 2018 decreased in relation to 31 December 2017 by 3.1 p.p. and was 40.2% - liabilities dropped by ca. PLN 67 million along with an increase in equity by ca. PLN 62 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 98.5% (as at 30 June 2018) compared to 96.2% (as at 31 December 2017) – in the analysed period the value of non-current assets dropped by PLN approx. 5 million; fixed capitals (equity plus non-current liabilities less provisions) increased by approx. PLN 73 million.

Liquidity ratios

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

Liquidity ratios

[days]	31 Dec. 2017	30 Jun. 2018	Change
Current liquidity ratio	1.11	1.28	15.3%
Quick liquidity ratio	1.01	1.11	9.9%

Turnover ratios

Turnover ratios

Turnover ratios

[PLN '000]		31 Dec. 2017	30 Jun. 2018	Change
1. Inventory turnover	average inventories / costs of goods, products and materials sold	28	20	-28.6%
2. Debtors collection rate*	average receivables / revenue	46	50	8.7%
3. Creditors payment rate**	average liabilities / costs of goods, products and materials sold	134	77	-42.5%
4. Operating cycle	1+2	74	70	-5.4%
5. Cash conversion cycle	4-3	-60	-7	-88.3%

* Trade debtors and other receivables
** Trade and other liabilities

Inventory turnover ratio

The inventory turnover ratio as at 30 June 2018 fell to 8 days, compared to the previous year. In year-on-year terms, an average level of inventories slightly increased with a concurrent decrease in costs of products, goods and materials sold.

Debtors collection ratio

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 50 days (as at 30 June 2018), compared to 46 days (as at 31 December 2017). 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 the financial information got shorter by 57 days to ca. 77 days, as compared to the end of 2017. In the period under analysis, the LW Bogdanka Group had a lower average level (by approx. PLN 3 million) of current trade creditors with lower costs (by approx. PLN 120 million) of products, goods and materials sold.

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 70 days, compared to 74 days as at 31 December 2017. The time necessary for realising the Group's current assets got shorter by 4 days on the average.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 30 June 2018 was -7 days (as at 31 December 2017: -60 days).

Information on LW Bogdanka Group companies subject to consolidation

The Subsidiaries: Łęczyńska Energetyka sp. z o.o., EkoTRANS Bogdanka sp. z o.o., RG Bogdanka sp. z o.o. and MR Bogdanka sp. z o.o. were included in the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group for H1 2018 with the full consolidation method.

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

In H1 2018 no material off-balance sheet items occurred.

Investments and capital investments of LW Bogdanka Group

In 2018 the Group made no significant capital investments.
The value of cash held by the Group as at the end of June 2018 stood at PLN 336,015,000, of which PLN 313,042,000 was held by the Parent. The amount of PLN 336,015,000 is disclosed as follows:
- PLN 120,127,000 is disclosed under non-current assets,
- PLN 215,888,000 is disclosed under current assets.

The amount of PLN 120,127,000 covers assets accumulated by the Parent in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a bank deposit). The amount of PLN 215,888,000 includes financial resources (available cash) kept in short- and medium-term bank deposits – the amount of deposited cash varies depending on internal income and expenditure forecasts. In accordance with the adopted Strategy, the Parent maintains the amount of available cash at the levels equal to the value of average monthly sales revenue (1/12 of forecast annual sales revenue). Financial resources gathered at the Parent amount to PLN 192,915,000, and in the Subsidiaries – PLN 22,973,000.
In addition to cash, the Group also hold other current investments worth PLN 151,279,000 consisting in bank deposits with the initial maturity of more than 3 months.

Information on financial instruments and bonds

Information on derivative financial instruments

As at 30 June 2018, the LW Bogdanka Group did not hold any open financial instruments.

Bonds

At the LW Bogdanka Group, only the Parent issued bonds. As at 30 June 2018, the Parent had a Programme Agreement signed on 23 September 2013 regarding the bond issue programme of up to PLN 300,000,000 concluded with Bank Polska Kasa Opieki S.A.
The total value of all bonds issued under the Agreement stood at: PLN 300,000,000, of which as at 30 June 2018 PLN 225,000,000 remained outstanding. Maturity dates of the remaining bonds are as follows:

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

Given the fact that 30 June 2018 was a day off work, in accordance with the above Programme Agreement, the Parent redeemed bonds totalling PLN 75,000,000 on 2 July 2018. After 2 July 2018 the total of PLN 150,000,000 remained outstanding.

Use of proceeds from bond issue

In accordance with the Programme Agreement relating to bond issue, the objective of the Issue means refinancing of the existing debt, financing the current operations and investment needs of the Issuer (but it does not constitute the objective of the issue within the meaning of the Bonds Act)."
The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described on page 10 of the Report.

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

The LW Bogdanka Group did not publish projections of financial results for 2018.

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 as at the publication day [PLN '000]
23 September 2013	300,000	300,000	-	150,000

Assessment of the possibilities of investment plans execution

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

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

Condensed interim financial statements of LW Bogdanka S.A. and condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2018 were prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" The financial statements were prepared using the same accounting principles for the current and comparative periods, except that IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" were applied for the first time as of 1 January 2018. The issue is discussed in more detail in Note 2.1, page 12, of the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group for the first half of 2018.

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

As of the date of preparing the Directors' Report on Operations of the Group for H1 2018 LW Bogdanka and its subsidiaries were not parties to proceedings pending before a court, a relevant authority for arbitration proceedings or a public administration authority, concerning:

- liabilities or receivables of LW Bogdanka S.A. or its Subsidiary, whose value is material from the perspective of the LW Bogdanka Group,
- two or more proceedings related to liabilities and receivables, whose value is material from the perspective of the LW Bogdanka Group,

Agreements concerning loans and borrowings

In H1 2018 the Parent had one loan agreement in effect.

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

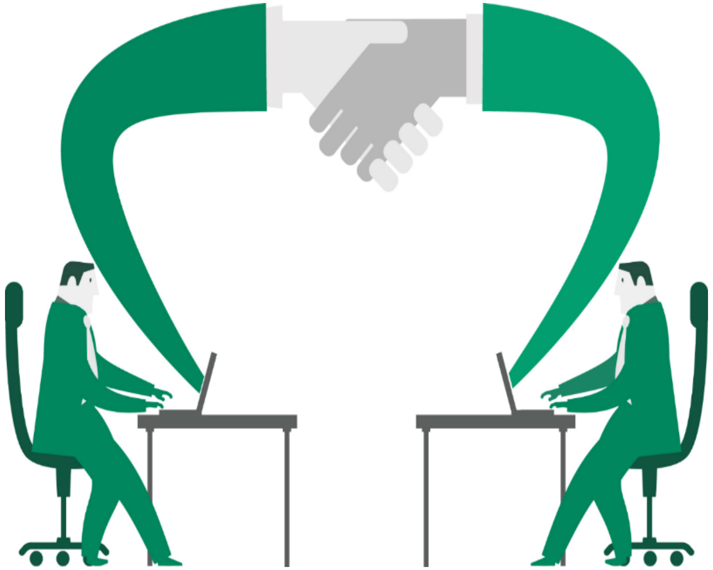
Information on LW Bogdanka S.A. or its subsidiary granting material sureties for a credit facility or loan or granting guarantees

In the period from 1 January 2018 to 30 June 2018, neither LW Bogdanka nor its subsidiaries granted high-value sureties for a credit facility or loan, nor did they grant guarantees jointly to a single entity or a subsidiary company of that entity.

Transactions with related entities

In H1 2018 the Parent and its subsidiaries did not conclude transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis. Information about all agreements that are significant from the point of view of the Issuer's operations is published in the form of current reports available at http://ri.lw.com.pl/raporty-biezace.

For more information about agreements with the Enea Group and companies controlled by the State Treasury see Note 29 of the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group for 2018.



Loan and borrowing agreements signed by Subsidiaries

In accordance with an agreement of 9 June 2014, Łęczyńska Energetyka sp. z o.o. was granted a loan (of PLN 26.580,000) by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) in Lublin, which was allocated to financing the construction of the Water Treatment Station in Bogdanka for the purposes of the existing infrastructure. The loan bears interest of 0.7 of the rediscount rate set by the Monetary Policy Council, not less than 4% annually. In 2014-2016, 100% of the granted loan amount was used, and its repayment will be gradually performed until 31 July 2024.

Except for the above loan, between 1 January and 30 June 2018 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In H1 2018, the following Subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., MR Bogdanka sp. z o.o., did not grant, incur or terminate agreements regarding credit facilities and loans.

Guarantees received by the LW Bogdanka Group

Security receipt date	Security expiry date	Security provider	Agreement objective	Form of security	Amount of security
27 October 2015	31 January 2018	Bank PEKAO S.A.	to secure performance of an agreement with UTA Polska sp. z o.o.	bank guarantee	up to PLN 50,000

4. Shares and shareholding

Share capital structure and shareholding

Share capital structure

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

On 4 January 2012, a total of 3,208,111 employee shares were introduced to the Warsaw Stock Exchange, and 34,754 employee shares were introduced on 4 February 2013. The Parent's public float totals 34,013,455 shares. As at the date of publishing this Report, the remaining 135 shares are registered shares.

The total number of votes resulting from all of the issued shares of the Issuer corresponds to the number of shares and equals 34,013,590 votes.

The Parent has a strategic majority shareholder. The majority shareholder is the Enea Group which holds a majority block of shares which accounts for 66.0% of the shares in LW Bogdanka S.A. (the majority shareholder's block of shares totals 22,448,834 shares, which corresponds to a nominal value of PLN 112,244,170). Other shareholders of the Issuer are mainly institutional investors in the form of pension and investment funds.

Treasury shares

In H1 2018 LW Bogdanka S.A. and Subsidiaries of the LW Bogdanka Group did not acquire any treasury shares of the Parent.

Changes in the shareholding structure by the date of the Report

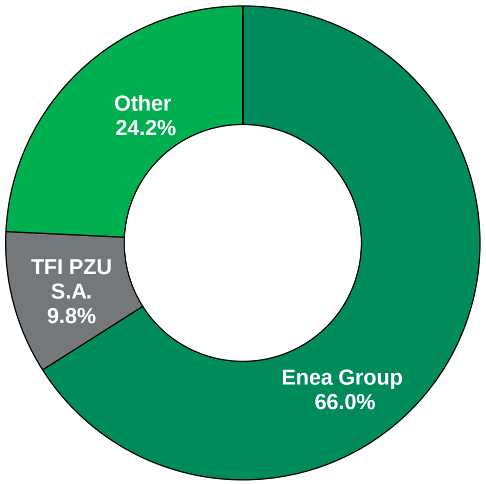
According to the information of the Parent, the Issuer's shareholding structure has not changed since the publication of the Consolidated Quarterly Report for Q1 2018.

Shareholding structure

The table below shows a shareholding structure of the Parent as at 24 May 2018 and as the date of publishing this Report, i.e. 13 September 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 24 May 2018 and 13 September 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 13 September 2018



Participation of the LW Bogdanka's shares in indices

The Parent was first listed on the Warsaw Stock exchange on 25 June 2009. During H1 2018, 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;
- Investor MS - Investor MS Index is an external index calculated by the stock exchange on commission of Investors TFI S.A. The functionality of the index is to assess behaviour of share prices of companies with medium and small market cap, which make an investment area of the "Investor Top 25 Małych Spółek FIO" fund (open-end fund of top 25 small companies). The Investor MS Index makes part of a benchmark for the assessment of investment performance of that fund.
- Respect Index – index of socially responsible companies.

Analysts' recommendations and price performance of the shares

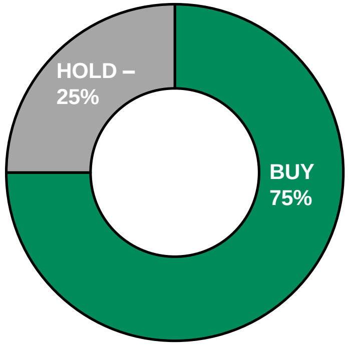
Participation of the Parent's shares in indices as at 13 September 2018

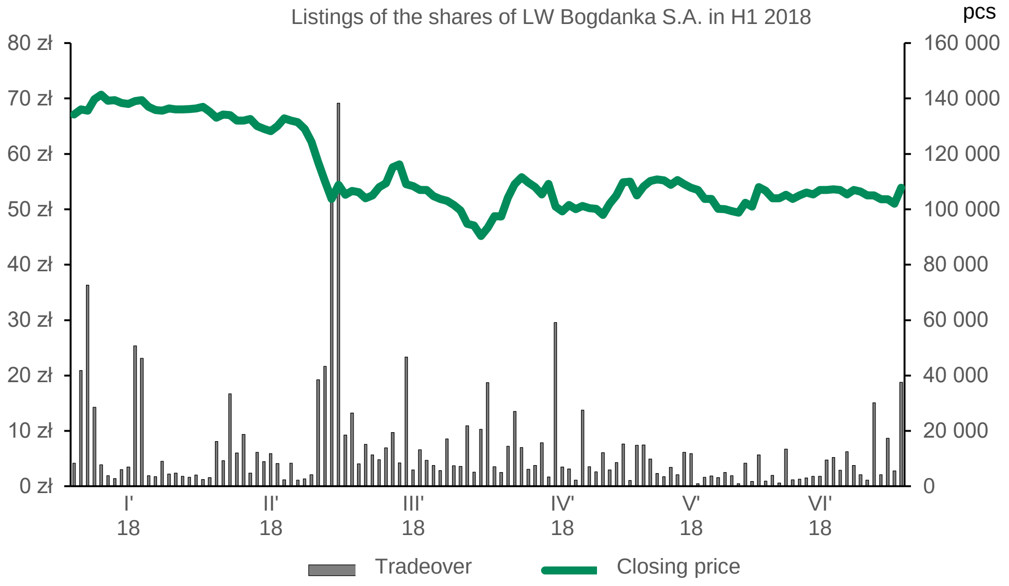
mWIG40	WIG-GORNICTWO	WIG Poland	RESPECT Index	InvestorMS
0.9%	3.6%	0.2%	0.6%	0.7%

Analysts' recommendations issued for LW Bogdanka S.A. in 2018

Date	Institution	Recommendation	Target price	Price on the date of issue
8 January	Noble Securities	Buy	PLN 71.50	PLN 68.80
18 January	BOŚ DM	Buy	PLN 80.00	PLN 68.50
5 February	IPOPEMA Securities	Hold	PLN 72.62	PLN 67.00
1 March	IPOPEMA Securities	Buy	PLN 63.47	PLN 52.60
9 March	BZ WBK	Buy	PLN 65.00	PLN 54.70
28 March	Societe Generale	Buy	PLN 53.00	PLN 47.10
17 April	BOŚ DM	Buy	PLN 70.00	PLN 49.60
25 May	Societe Generale	Hold	PLN 57.00	PLN 50.00
28 May	BZ WBK	Buy	PLN 58.00	PLN 49.00
18 June	PKO IB	Buy	PLN 72.20	PLN 53.50
4 July	BOŚ DM	Buy	PLN 70.00	PLN 53.60
19 July	Societe Generale	Hold	PLN 57.00	PLN 53.60

In 2018 all analysts recommended "BUY" or "HOLD" shares of LW Bogdanka S.A.





Key share indicators:	H1 2016	H1 2017	H1 2018
Maximum price [PLN]	46.90	83.80	70.70
Minimum price [PLN]	30.39	59.00	45.20
Last price [PLN]	36.14	66.75	53.90
Average price [PLN]	37.53	70.98	56.82
Capitalisation at end of period [PLN million]	1,229.25	2,270.41	1,833.33
Book value [PLN million]	2,292.41	2,342.95	2,963.14
Price/earnings ratio	13.34	16.3	27.6
Price/book value	0.54	0.97	0.62
Average volume per session [pcs]	47,922	20,249	13,851
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590

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

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

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

Name and surname	Number of the Company's shares as at 13 September 2018	Nominal value of the shares (PLN)	Number of the Company's shares as at 24 May 2018	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
MANAGEMENT BOARD					
Artur Wasil	0	0	0	0	0
Stanisław Misterek	247	1,235	247	1,235	0
Adam Partyka	253	1,265	253	1,265	0
Sławomir Karlikowski	0	0	0	0	0
Marcin Kapkowski	0	0	0	0	0
SUPERVISORY BOARD					
Name and surname	**Number of the Company's shares as at 13 September 2018**	**Nominal value of the shares (PLN)**	**Number of the Company's shares as at 24 May 2018**	**Nominal value of the shares (PLN)**	**Number of shares in Subsidiaries**
Mirosław 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	0	0
Kamil Patyra	0	0	0	0	0
Mariusz Romańczuk	0	0	0	0	0
Anna Spoz	0	0	0	0	0
Michał Stopyra	0	0	0	0	0
Total	**Number of the Company's shares as at 13 September 2018**	**Nominal value of the shares (PLN)**	**Number of the Company's shares as at 24 May 2018**	**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 Parent

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

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

Potential changes in the shareholding structure

On 4 July 2013, as part of the introduction of the Management Options Scheme at the Parent, the Annual General Shareholders Meeting of LW Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 registered series A subscription warrants. For more information on the Management Options Scheme please refer to the Condensed Interim Consolidated Financial Statements of the LW Bogdanka Group prepared as at 30 June 2018, Note 12. At the end of July 2018, the Parent and the participants to the Management Options Scheme concluded arrangements terminating their scheme participation agreements. In exchange for the termination, the persons received symbolic monetary compensation.

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

5. Governing Bodies

Composition of the Management Board of the Parent

Adam Partyka

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

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

Stanisław Misterek

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

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

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. On 8 May 2018, he was appointed to the position of Vice-President of the Management Board, Production and Development.

Marcin Kapkowski

Vice-President of the Management Board, Procurement and Investments

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

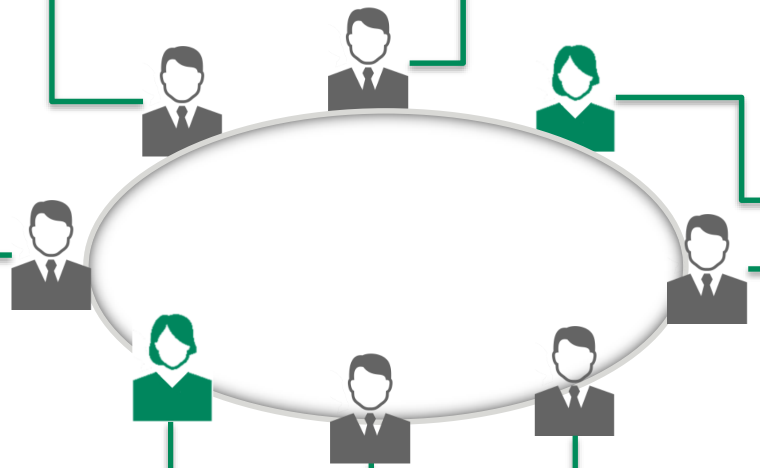
Changes in the Management Board of the Parent

Date	Event
16 February 2018	The Supervisory Board of the Parent adopted a resolution under which Mr Krzysztof Szlaga – President of the Management Board of LW Bogdanka S.A. was dismissed from office. The Supervisory Board of the Parent 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 Parent adopted a resolution on the appointment, effective as of 21 March 2018, of the President of the Management Board of LW Bogdanka S.A.

Composition of the Parent's Supervisory Board as at 13 September 2018

25% - independent members in the Supervisory Board of LWB

25% - women in the Supervisory Board of LWB



Mirosław Kowalik
Chairman of the Supervisory Board

Przemysław Krasadomski
Deputy Chairman of the Supervisory Board, Member of the Audit Committee

Szymon Jankowski
Secretary of the Supervisory Board

Anna Spoz
Chairperson of the Audit Committee (independent)

Ewa Nowaczyk
Member of the Supervisory Board

Michał Stopyra
Member of the Audit Committee (independent)

Mariusz Romańczuk
Member of the Supervisory Board

Kamil Patyra
Member of the Supervisory Board

Composition of the Parent's Supervisory Board as at 13 September 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 the ALSTOM Power Group, including his most recent role as the Sales and Marketing Director. Between 1995 and 1998, he worked for ABB. On 7 January 2016 he was appointed to the position of the President of the Management Board of Enea S.A.
Mirosław Kowalik is a graduate of the Faculty of Electrical Engineering at the Gdynia Maritime University. He completed MBA studies in management (programme of the Rotterdam School of Management in cooperation with the University of Gdańsk and the Gdańsk Foundation for Management Development), and was given the title of Executive Master of Business Administration. He has also completed post-graduate studies in corporate finance management at the Warsaw School of Economics. He is currently pursuing the Executive Doctor of Business Administration programme at the Institute of Economics of the Polish Academy of Sciences.

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 Uzdrowiskowy 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 Sklodowska 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 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.

Glossary

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

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	Vice-President of the Management Board, Production and Development
Marcin Kapkowski	Vice-President of the Management Board, Procurement and Investments

Bogdanka, 11 September 2018

Thank you!