



2018

Directors' Report on Operations
of LW Bogdanka S.A.
and the LW Bogdanka Group





Dear Sirs and Madams,

In 2018 LW Bogdanka performed its production plan at a level of 9.0 million tonnes and sales plan at a level of 8.9 million tonnes. We retain a strong market position achieving, in 2018, the share in the market of thermal coal sales of 18.7%, and the share in the market of thermal coal sales to commercial power plants of 24.7%.

Last year was marked by preparations made by the LW Bogdanka Group to intensify extraction. We made more than 37 km roadway excavations (+20% compared to 2017) – which is a record-breaking performance in the Company's history. As a result we entered into 2019 well prepared – thanks to such a broad scope of preparatory works we are able to plan this year's extraction at a level of approximately 9.4 million tonnes.

The investment in a future increase in extraction has burdened current financial results to some extent. Although the consolidated revenue of the LW Bogdanka Group amounted to PLN 1,756.7 million (i.e. at a level similar to that of 2017), we recorded EBITDA (PLN 469.2 million) and net profit (PLN 53.8 million) at lower levels than in the previous year. In addition to the costs incurred in connection with the preparations for increasing the scale of activities, other factors that affected the achieved financial results were: less favourable positioning of mining panels and problems with the quality of the exploited seams in Q4 2018 (which translated into a lower yield than in the previous year) as well as the increased costs of outsourced services, materials and energy, and labour costs. With a few-percent increase in the average price of coal sold, this exerted pressure on our margins. Except for the factors referred to above, the operating profit and the net profit were also shaped by higher value of depreciation resulting from the reversal of impairment loss of property, plant and equipment disclosed in the financial statements as at 31 December 2017.

2018 saw a further increase in coal prices both on the international market (+8.8% compared to 2017) and domestic market (+13.4% compared to 2017). This trend was reflected in higher prices in our contracts for 2019 (using price formulas in contracts is the reason for which the changes to prices of raw materials - both up and down – are reflected in the Company's results with a delay of one year). Coupled with the planned increase in extraction, this enables us to make a positive assessment of the prospects for 2019.

Our priority for this year, in addition to increasing the extraction up to the level of 9.4 million tonnes, is to continue to work on costs and CAPEX optimisation, strive to improve yield and prepare ourselves to make available the Ostrów deposit, the exploitation of which is scheduled to commence in the fourth quarter of 2020, to begin with – on the basis of the underground infrastructure.

As the most efficient and modern mine in Poland we continue to work on further improvement of operational excellence. We started 2019 with a new monthly output record of coal by extracting in January 903,500 tonnes of commercial coal. Let me remind you that in June 2017 we set another record: the GRP-5 section drilled 820 running metres of top gallery thus beating our previous monthly record set in April 2005. This achievement brought us an award in the "Innovation" category in the Mining Success of the Year Competition for 2018, organised by the Mining Chamber of Industry and Commerce.

We focus on modern solutions based on state-of-the-art technology. We will continue to invest in IT tools and systems that support the work of our plant. We wish that the infrastructure planned to be launched

in the Ostrów deposit after 2025, for the construction of which we are already preparing, becomes a model example of our "Smart Mine" project.

At the end of 2018, already for the tenth time, we were qualified to the laureates of the RESPECT Index rating. We have been striving for years to proceed in line with our standards both in terms of communication with investors, as well as in social, workforce, environmental and business terms. This award is a confirmation for us that our efforts are appreciated, which additionally motivates us to further action.

LW Bogdanka is the most efficient and modern mine in Poland. Our priorities are the strengthening of our market position in a long-time perspective and further building of the Company's goodwill for its shareholders.

Sincerely,

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



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Summary
of Operational Activities

1



Q1 2018

Elektrownie Ostrołęka S.A.

On 3 January 2018, LW Bogdanka S.A. 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, LW Bogdanka S.A.'s Supervisory Board adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.) 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 Szłaga 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 salaries 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, effective as of 21 March 2018, on the appointment of Mr Artur Wasil as the President of the Management Board. Mr Artur Wasil worked in LW Bogdanka S.A. from 2002 until the end of 2011. 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.

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 Pekao 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

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.





Q3 2018

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

On 20 July 2018 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 Pekao 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 Górze. 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.

Dismissal of Management Board members of LW Bogdanka S.A.

On 19 September 2018 the Supervisory Board acting under Article 17.1.9) of the Company's Articles of Association, adopted the resolution on dismissal the following persons, effective as at the day of adopting the resolution:

- Mr Stanisław Misterek – from the position of Vice-President of the Management Board responsible for Economic and Financial Affairs,
- Mr Stawomir Karlikowski – from the position of President of the Management Board responsible for Production and Development.

Q4 2018 and events until the publication date

Redemption of Bonds by a Bank under a Bond Issue Programme

On 1 October 2018 the Parent redeemed 750 bonds, with a par value of PLN 100,000 each, issued under the bond issue programme, with a contractual redemption date falling on 30 September 2018 (Sunday). The bond issue programme was established based on an agreement concluded with Bank Pekao S.A. on 23 September 2013.

Appointment of new Management Board members of LW Bogdanka S.A.

On 4 October 2018, the Company's Supervisory Board adopted resolutions on:

- Appointment of Mr Artur Wasilewski to the position of Vice-President of the Management Board responsible for

Economic and Financial Affairs as from 8 October 2018,

- Appointment of Mr Dariusz Dumkiewicz to the position of Vice-President of the Management Board responsible for Development as from 15 October 2018.

Concluding an annex to the agreement with Grupa Azoty Zakłady Azotowe Puławy S.A.

On 19 November 2018 the Parent signed an Annex to the Long-Term Agreement for the sale of thermal coal with Grupa Azoty Zakłady Azotowe Puławy S.A. As a result of the Annex, the price of supplies for 2019 has been agreed upon, and the term of the Agreement has been extended until 31 December 2023.

Annex to the agreement with Enea Elektrownia Połaniec S.A.

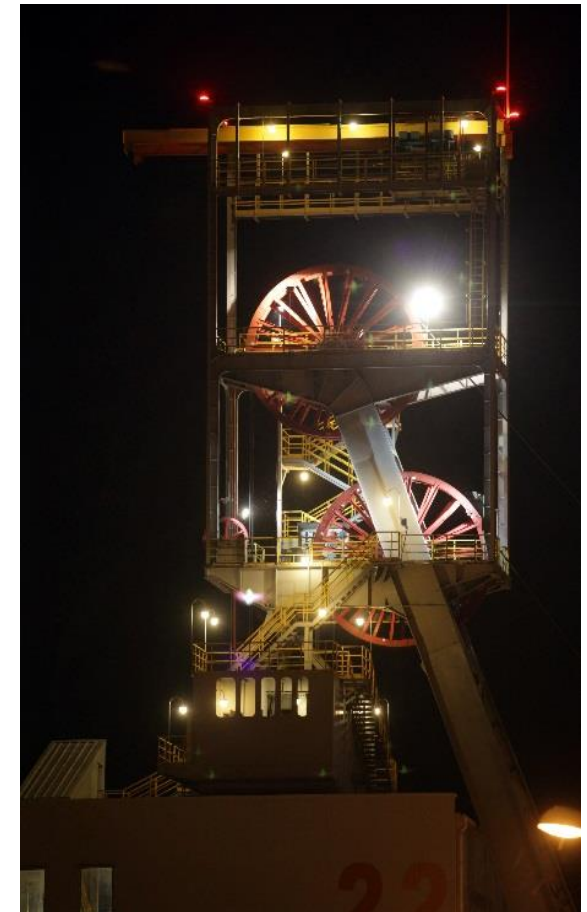
On 19 December 2018, LW Bogdanka S.A. signed an annex to an agreement for the sale of thermal coal with Enea Elektrownia Połaniec S.A. The Annex defines the price of thermal coal for deliveries made in 2019.

Redemption of bonds at maturity and completion of the Bond Issue Programme

On 31 December 2018 LW Bogdanka S.A. redeemed 750 bonds with a par value of PLN 100,000 each, issued under the Bond Issue Programme. Given the above the Company completed the Bond Issue Program pursued under a programme agreement of 23 September 2013 covering issue of bonds up to the amount of PLN 300 million, concluded with Bank Pekao S.A.

Resignation of a Management Board member

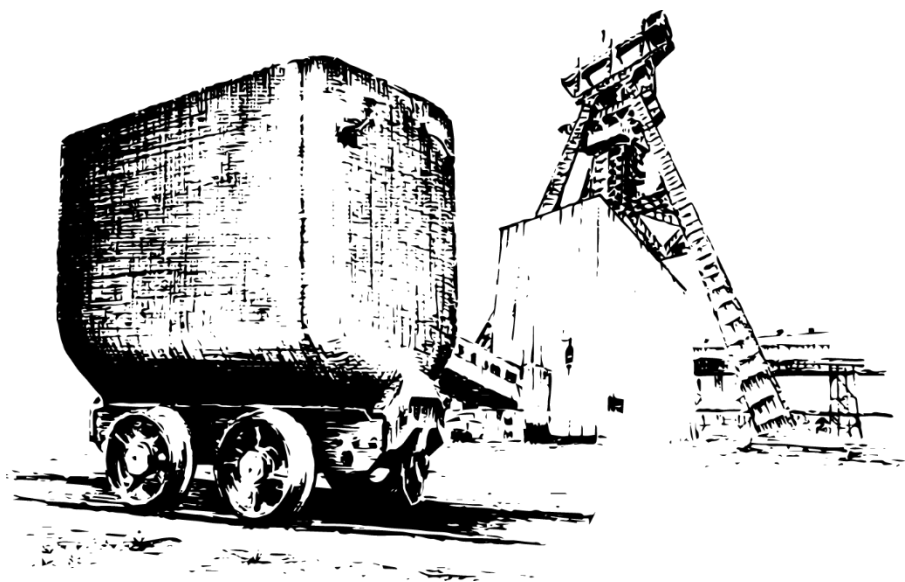
On 18 January 2019 the Management Board of LW Bogdanka S.A. received from Mr Marcin Kapkowski, Vice-President of the Management Board responsible for Procurement and Investments, his resignation from his function as a Member of the Company's Management Board with effect from 31 January 2019.





2

Organisation
and Business Activities
of the LW Bogdanka Group



Given the Group's structure and the fact that the majority of its operations are carried out by the Parent (the subsidiaries perform auxiliary functions to the operations run by the Parent), descriptions contained in the Report also refer directly to actions and events occurring at the Parent. Whenever any differences occur, they are clearly indicated by relevant description and data.

Lubelski Węgiel Bogdanka Spółka Akcyjna

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 Industry ID No. (REGON): 430309210
 Tax Reg. No. (NIP): 713-000-57-84
 E-mail: bogdanka@lw.com.pl

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

LW Bogdanka S.A. is a joint-stock company operating under the laws of Poland. The Company operates on the basis of legal acts which include the following:

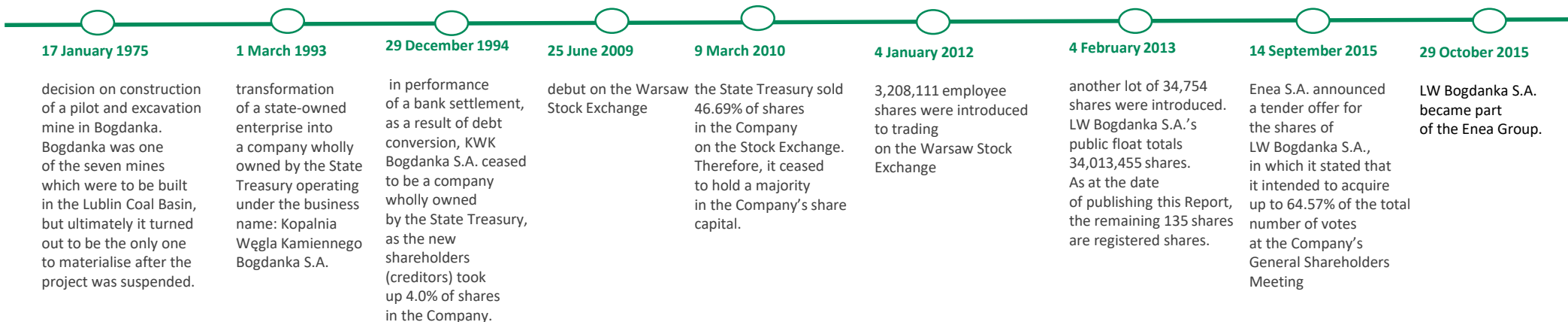
- Act of 15 September 2000 – Commercial Companies Code (Dz. U. 2017.1577)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. 2017.2126)

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

The Company may operate in Poland and abroad.

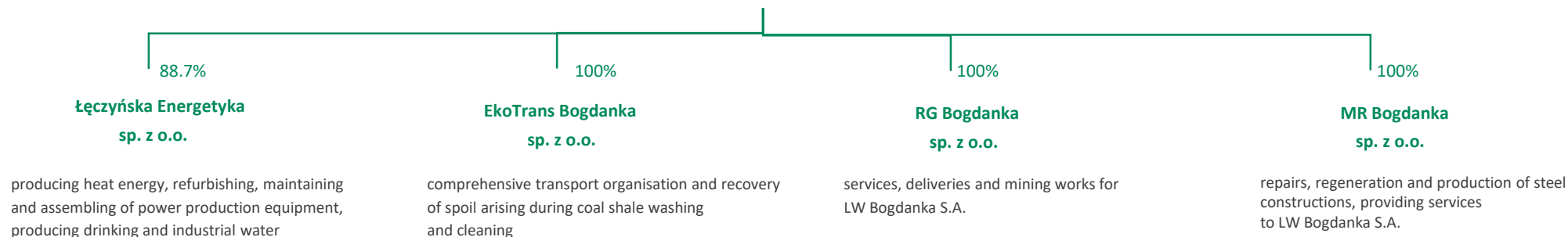
The Company was established for an indefinite term.

History in Brief





THE LUBELSKI WĘGIEL BOGDANKA GROUP



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

Changes in basic management rules of LW Bogdanka S.A.

In order to make the rules of management of LW Bogdanka S.A. more precise, the following were introduced in 2018:

- Amendments to the Company's Organisational Rules and the Organisation Chart,
 - List of in-house auditors of the Integrated Management System at LW Bogdanka S.A.,
 - Policy of Personal Data Protection at Lubelski Węgiel Bogdanka S.A.,
 - Rules provided for in the Policy for Safety of Information in the ICT Systems of Lubelski Węgiel Bogdanka S.A. and in the Instruction specifying the method of managing IT system used for personal data processing at Lubelski Węgiel Bogdanka S.A., Strategy Board of LW Bogdanka S.A.,
 - Rules for organising evacuation and a procedure in the event of a threat or terrorist events in Lubelski Węgiel Bogdanka S.A.,
 - Uniform Rules of Work,
 - Deputy Data Protection Officer and IT Systems Administrator was appointed,
 - New Terms and Conditions of Coal Sales.
- The Company has updated its existing documentation and introduced the new ones in order to increase transparency and streamline a delivery service process.

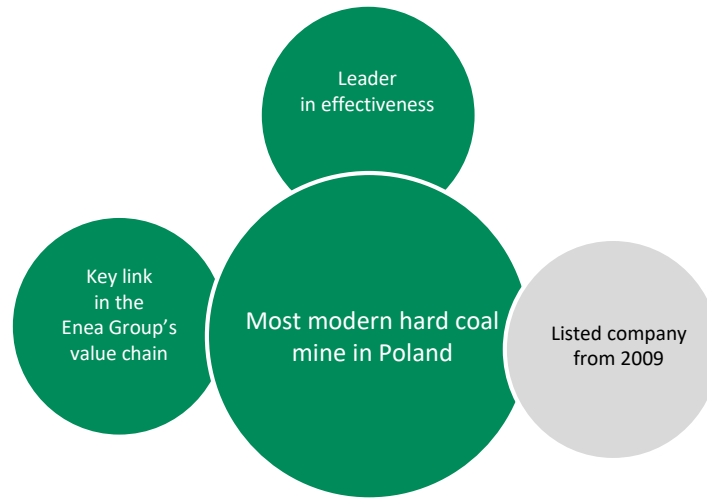


LW Bogdanka S.A. is one of the leading hard coal producers in Poland, standing out in the industry in terms of financial performance, productivity, and investment plans to access new deposits. The thermal hard coal sold by the Company is mostly used to produce electricity, heat and cement. The Company's customers are mainly industrial companies, especially entities operating in the power industry, located in the east and north-east of Poland. LW Bogdanka S.A. makes part of the Enea Group, one of the leaders of the Polish power market.



LW Bogdanka S.A. has three excavation fields:

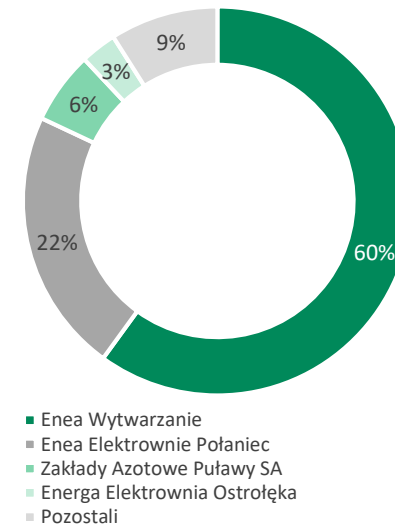
- Bogdanka
- Nadrybie
- Stefanów



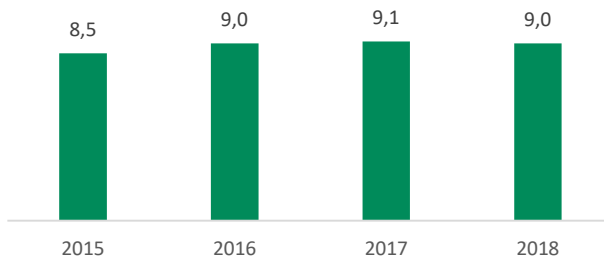
Key customers [44% of share in revenue]

The Company's main customers include:

- the Enea Group – Enea Wytwarzanie
- the Enea Group – Enea Połaniec
- Energa Elektrownie Ostrołęka
- Azoty Group - Zakłady Azotowe Puławy S.A.



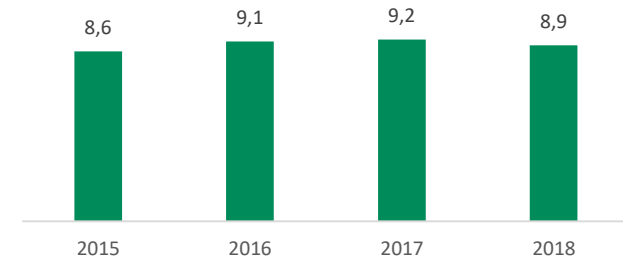
Production [million tonnes]



In 2018, the coal production structure was as follows:

- fine coal – 98.8%
- nut coal – 0.2%
- pea coal – 1.0%

Sale [million tonnes]



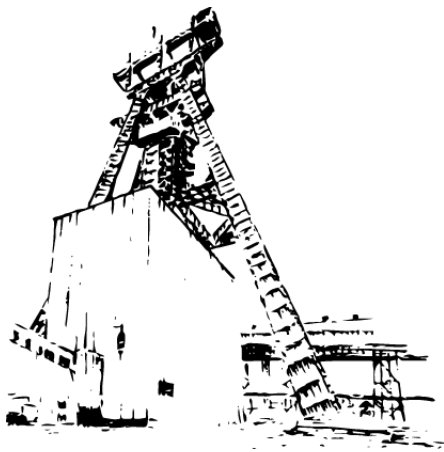


Cutting-edge technologies

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

Cost control

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



New deposits

At the end of 2017 the Company has obtained from the Minister of the Environment a mining licence for extraction of hard coal from the Ostrów deposit in the Ludwin Mining Area, with the exploitable resources of about 172 million tonnes. LW Bogdanka S.A. also continues to work towards obtaining a mining licence in the K6-K7 area – the Company is a party to a number of administrative proceedings as well as court and administrative proceedings in connection with the process of obtaining the licence. The currently estimated mine life is defined to end in 2051 (which was estimated on the basis of available coal resources with an account taken of an average level of extraction).



Towards a Smart Mine

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

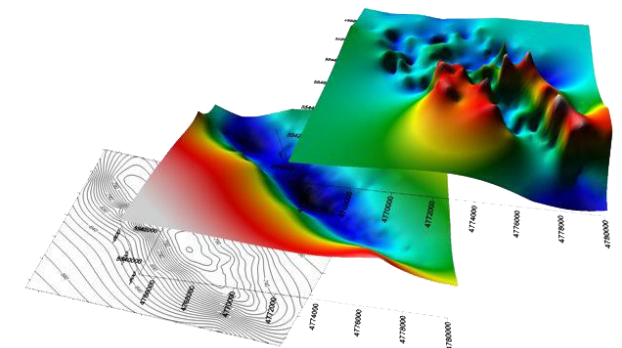
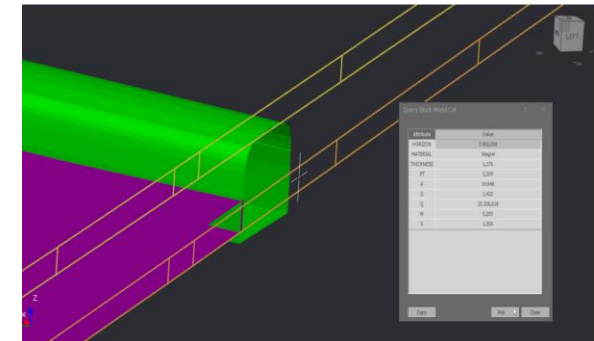
- our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals
- our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both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

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

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

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

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





Production potential of LW Bogdanka S.A.

The mining area exploited by the Company is divided into three mining fields:

- Bogdanka Field
- Nadrybie Field
- Stefanów Field

Shafts of the mine are located in:

- Bogdanka
- Nadrybie
- Stefanów

While the lifting shafts are located in:

- Bogdanka
- Stefanów

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

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

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

Hard coal reserves - Bogdanka - updated as at 31 December 2018

Reserves [million tonnes]	year				Difference 2018-2017
	2015	2016	2017	2018	
Total balance	771.2	763.9	754	746.8	-7.2
Industrial	288.4	280	269.1	262	-7.1
Operating reserves	217.3	210.6	203	195.9	-7.1



Hard coal reserves - Stręczyn – K-3 - updated as at 31 December 2018

Reserves [million tonnes]	2018
Total balance	145.7
Industrial	21.4
Operating reserves	16.5

*Balance reserves (covered by the licence)

Hard coal reserves - Ostrów - updated as at 31 December 2018

Reserves [million tonnes]	2018
Total balance	1,251.4
Industrial	250.8
Operating reserves	171.8

*Balance reserves (covered by a licence)



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 (in nominal terms) 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 (in nominal terms) in 2016-2025.

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

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

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

The Parent assumes that it will strengthen its market position by achieving at least a 25% share in the market of fine thermal coal for commercial power plants as well as 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-Polaniec mining and power generation area
2. Efforts to double the exploitable resources on the basis of the Ostrów deposit and to extend the mine's life to about 50 years
3. Implementation of strategic initiatives which include:
 - feasibility study of construction of an integrated gasification cycle (IGCC) system for production of fuel for power generation within the ENEA Group

- programme to continue improving work safety
- utilisation of the advanced high-performance face complex
- continuation of the "Smart Mine" programme
- effective waste rock management
- operator's services provided by LW Bogdanka S.A., offered on the basis of high technological and management standards of the Parent.

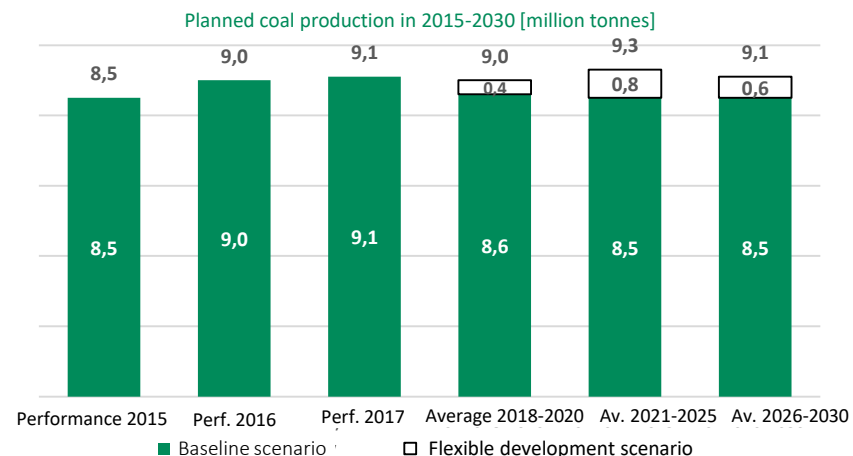
Until 2030, a key direction for the Parent will be the development of infrastructure in the Ludwin Mining Area (Ostrów deposit) - according to preliminary estimates the Parent will spend there about PLN 1.2 – 1.3 billion (in real terms) after 2025. This project is to ensure that the shaft complex in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

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 IFRS UE.





Development strategy of the subsidiaries

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

The Management Board has set the following strategic objectives for the Company to be completed until 2021:

- extension of the Water Treatment Station (WTS) – due to the technological needs of LW Bogdanka S.A., there are plans to continue this task in 2019 (cooling fire extinguishing water tank and handling the concentrate)
- modernisation of boiler house in Bogdanka – as part of this task it is planned in 2019 to construct of the transformation station, as well as switchgear for the purposes of Bogdanka boiler house and switchgear connector
- 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 - this year a concept of assumptions for 2020-2021 is to be prepared
- Modernisation of the main heat line Bogdanka - łączna - 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 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
- repair and adaptation services for the office and administrative infrastructure on the surface.

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

In 2019 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.

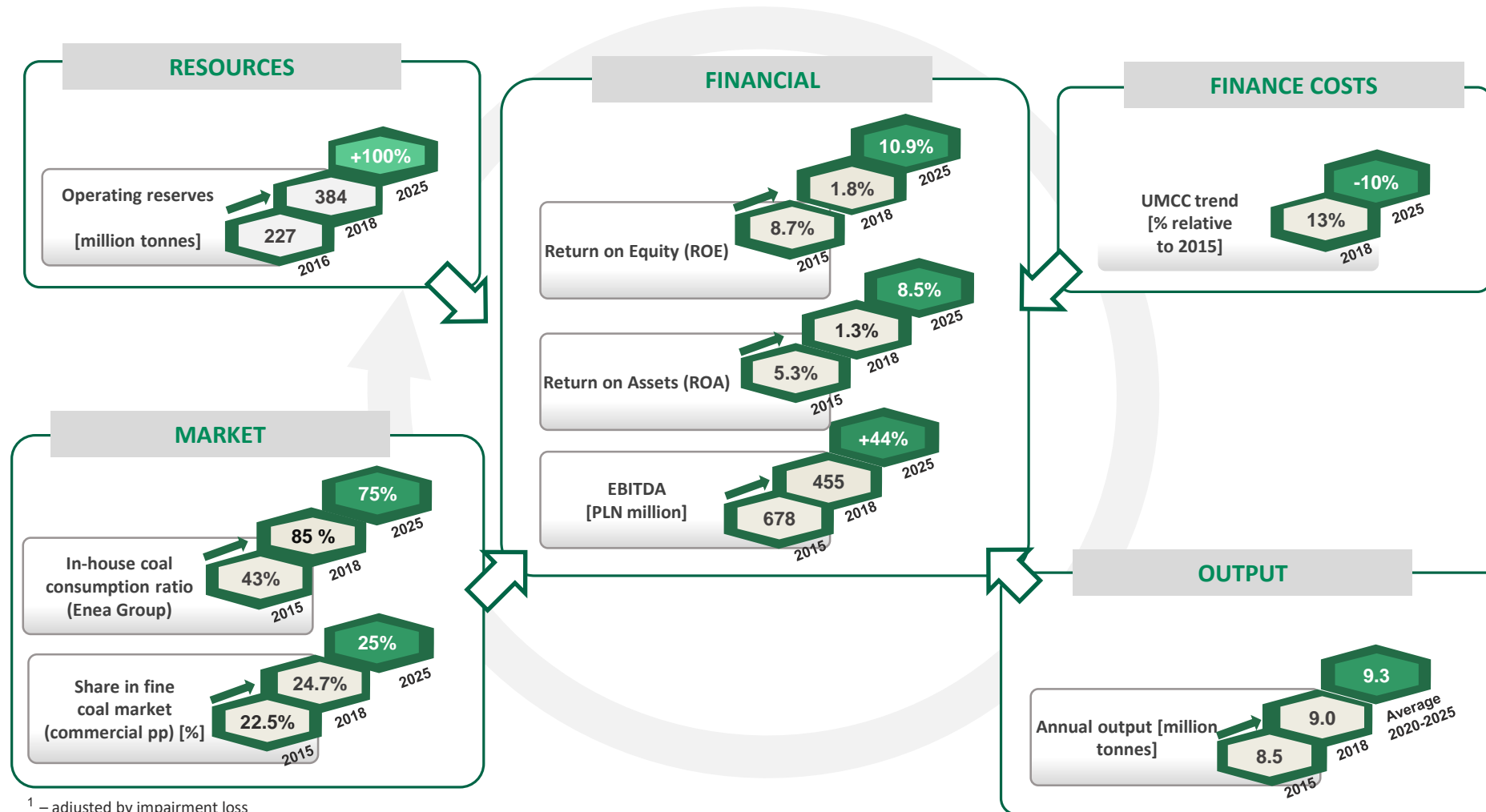
Development strategy RG Bogdanka sp. z o.o.

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





Pursuance of LW Bogdanka S.A.'s strategy in 2018



¹ – adjusted by impairment loss



Investment projects completed in 2018

In 2018, LW Bogdanka S.A. performed the planned investment tasks. In this respect, in 2018, capital expenditure for non-current assets totalled PLN 455,298,000.

The plan for 2018 included groups of tasks: development investments, including the purchase of machines and equipment, their modernisation and repairs, enlargement of the mining waste neutralization facility as well as operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, etc.

DEVELOPMENT INVESTMENTS AND OVERHAULS LW BOGDANKA S.A.



Ostrów Field – design works – in 2018 a programme & zoning concept along with the concept of monitoring natural environment were developed; works on filing an application for environmental approval for the pursued investment are underway. The purchases of land for a new extraction field were continued.

Machine park

Purchase and assembly of new machines and equipment – in 2018 LW Bogdanka S.A. purchased and assembled machines and equipment for a total amount of PLN 14,099,000, including costs of assembling. The most important ones included belt conveyors, suspended diesel locomotives, roadheading machines and cooling devices.

Purchases of finished goods – the finished goods worth PLN 18,223,000 were purchased. The most important ones included: ready-made transportation devices (including hoists, HUPA, running gear for containers, mobile lifting equipment used for lifting people at work), hydraulic pumps and aggregates, electric devices (including motors, electric equipment), and other ready-made devices.

Upgrades of machines and equipment – PLN 3,588,000 was assigned for an upgrade of a cutting machine, suspended locomotives, pump set - main drainage pump chamber, equipment for drawing off the gallery lining.

Upgrades and repairs of machines and equipment – the amount of PLN 3,834,000 was assigned for periodical wagon repairs and PLN 61,796,000 was assigned for modernisation of a wall support system and a wall conveyor.

Repair of wall systems – the amount of PLN 19,038,000 was assigned for renovation of the longwall coal-cutting machine, a wall conveyor and a wall bottom conveyor and other works.

Strategic initiatives – PLN 1,780,000 was assigned for the purchase of a bottom milling machine.

Enlargement of the mining waste neutralisation facility in Bogdanka – PLN 5,087,000 for works carried out as part of Stage I Part 2 with respect machines and electrical equipment. Design works are underway regarding enlargement as part of Stage II. Acquisition of plots located in the area of the project facility was continued.

MCPP replacement projects – PLN 5,272,000 was assigned for modernisation of steel structures, installation of electromagnetic separators in MCPP, modernisation of measurement system (SYSKON) and other works.

OPERATIONAL INVESTMENTS LW BOGDANKA S.A.



New workings and upgrade of existing ones

New workings were built in accordance with the applicable Mining Works Schedule. The total length of the gallery workings as part of investments in the whole 2018 was equal to 32.8 km with the value of PLN 242,370,000.

Modernisation of workings with respect to reconstruction of galleries and vertical workings was performed in accordance with the adopted schedules. Their total value amounted to PLN 55,110,000.

ICT

Alarm and monitoring system – performed works included: wireless connectivity system underground, analyses & reports as well as data warehouse IT system. Tasks pursued as part of the following projects: the "Integrated Production Management System" and the "Smart Mine" as well as purchases of the hardware and software were continued.

Transport

Cars were purchased.

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



Investment projects completed in 2018

Łęczyńska Energetyka
and other subsidiaries
of LW Bogdanka S.A.

Łęczyńska Energetyka

Investment tasks implemented in 2018 included: construction and enlargement of the Water Treatment Station, alteration of the 6 kV STR-K switchgear in Bogdanka, alteration of the hydraulic system of the pump station in the boiler house, upgrade of sanitary waste treatment station, necessary upgrades of existing buildings and machines, purchase of vehicles for logistics units, purchase of necessary manufacturing machines and equipment.

In 2018 the Company's capital expenditure totalled PLN 7,148,000.

EkoTrans Bogdanka, RG Bogdanka and MR Bogdanka

in 2018 incurred capital expenditure in the total amount of PLN 161,000. These expenses were related to material investments.

Selected items of capital expenditure in the LW Bogdanka Group

[PLN '000]	PTE 2018	PTE 2018 implementati on	PTE 2018 implementation [%]	PTE 2019
New excavations and upgrades of existing ones	291,365	300,174	103.0%	378,273
Maintenance of machinery	142,890	121,709	85.2%	86,608
Obtaining new licences	3,900	1,089	27.9%	6,850
Ostrów Field	645	429	66.5%	7,805
Longwalls	40	0	0.0%	30,000
Other development investments	28,021	20,843	74.4%	39,006
ICT	6,957	4,692	67.4%	7,568
Administration	60	47	78.3%	20
Transport	170	166	97.6%	2,186
Other	11,322	6,149	54.3%	7,870
Total CAPEX in LW Bogdanka S.A.	485,370	455,298	93.8%	566,186
Łęczyńska Energetyka sp. z o.o.	9,500	7,148	75.2%	13,000
Other Subsidiaries	1,142	655	57.4%	1,312
Total CAPEX at the LW Bogdanka Group	496,012	463,101	93.4%	580,498

Capital expenditure for excavations in 2018.

Excavations and works - total	Depreciation method	Length [m]	Value of the coal from the workings [PLN '000]	Total value of capital expenditure [PLN '000]	Value of capital expenditure [PLN '000]
Longwall excavations:	natural	28,495.9			
Basic excavations	linear	4,317.0	113,225	410,705	297 480*
Reconstructions	linear / natural	2,031.7			

*the total does not include the compound costs of borrowed financing of PLN 2,694,000

In 2018, 35,021,9 m of roadway excavations were made. Reconstruction of the excavations were continued in accordance with the schedules. The total expenditure on reconstruction of the corridor workings in that period amounted to PLN 55,110,000. The total expenditure incurred on the new workings and on the modernization of the existing ones amounts to PLN 242,370,000. Fractions are not included in the values indicated in the tables, because they are directly recognised in the costs, but are included in the total length. In this case, this is about 2,209 m.



Planned investment tasks in 2019

INVESTMENTS LW BOGDANKA S.A.



Maintenance of machinery

Significant items planned for purchase in 2019 include: dry dust collectors, suspended diesel locomotives, scraper and belt conveyors, screens, crushers, machine for underground transport of materials, drainage pumps and hydraulic units, electric equipment, individual transport means, maneuver locomotives as well as vehicles (medical ambulance, cars), ICT systems and devices as well as bottom milling machine.

New licences

The Company has planned expenditure for the required documentation and analyses for K-6, K-7 deposits.

Extension of the mine with new extraction field – Ludwin mining area, Ostrów deposit

The Company has prepared a plan covering the development of a programme and zoning concept for the Ludwin mining area, purchase of land, preparation of other documentation (including a feasibility study).

DEVELOPMENT INVESTMENTS LW BOGDANKA S.A.



New workings and upgrade of existing ones

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

Other development investments

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

MCCP replacement projects – the project includes modernisation of MCCP facilities, replacement of jiggling machines, adjustment of the bridge, installation of pulsators on dust containers and other works. Switching stations and other electromagnetic systems – works including the upgrade of main fans in shaft 1.4, driving system, shaft signalling, modernisation of the battery charging system and other works are underway.

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

Administration – the costs of modernising office buildings.

Transport – purchase of additional means of transport.

Construction of facilities – our plans include the construction of a tower crane, gantry crane, construction of sites for storing third-party containers, construction and modernisation of parking spaces and other works.

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

Łęczyńska Energetyka and other subsidiaries of LW Bogdanka S.A.

Łęczyńska Energetyka – planned investment expenditure in 2018 amounts to about PLN 9,500,000. Out of this amount, the company plans to allocate PLN 2,087,000 for the extension of the Water Treatment Station in Bogdanka (WTS). Major investment projects planned for 2019 also include: reconstruction of hydraulic system of the pump station in the boiler house, upgrade of the coal bridge and construction of the 6/0,4 kV transformer station and the RNN – 0,4 kV switchgear for the purpose of the 29 MW boiler house.

Other subsidiaries of LW Bogdanka S.A.

EkoTrans Bogdanka, RG Bogdanka and MR Bogdanka – the other subsidiaries of LW Bogdanka S.A. plan to incur investment expenditure in the aggregate amount of PLN 1,142,000. These expenses will relate to the planned material investments.



Licences

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

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



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

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

Permit	Number	Issuing authority	Granted on	Expires on
Water permit for special usage of water resources, which covers:			31 December 2007	31 December 2017
a) drainage of the LW Bogdanka S.A. mine in Bogdanka	ŚiR.III.6811/91/07	Lublin Province Governor	28 December 2017	27 December 2021
b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river				
Permit to conduct mining / building works connected with mining waste dump extension	L.dz.5/512/1/93/AG	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	30 March 1993	-
Permit approving construction design for enlargement of the mining waste neutralization facility in Bogdanka	L.dz.LUB/02/35/56/11/12/MS	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 February 2012	-



Agreements concluded

Trade agreements

As in previous years, LW Bogdanka S.A. concluded new commercial agreements and, with respect to long-term agreements already in place, negotiated prices and volumes of deliveries for the following years. The above activities resulted in nearly 100% (as at this report date) of the volume designated for sale in 2019 having been covered with agreements. All significant agreements, material from the business perspective, as well as any changes therein have been notified by the Company in current reports. In 2018 the significance criterion was met by the conclusion of an annex to amend terms of the agreement with ENERGA Elektrownie Ostrołęka S.A., as announced by the Company in Current Report No. 1/2018 of 3 January 2018, conclusion of an annex to amend terms of the agreement with Zakłady Azotowe Puławy S.A., as announced by the Company in Current Report No. 6/2018 of 26 February 2018, conclusion of an annex to amend terms of the agreement with Enea Wytwarzanie Sp. z o.o., as announced by the Company in Current Report No. 23/2018 of 11 September 2018, conclusion of another annex to amend terms of the agreement with Zakłady Azotowe Puławy S.A., as announced by the Company in Current Report No. 29/2018 of 19 November 2018, and conclusion of an annex to amend terms of the agreement with z Enea Elektrownia Połaniec S.A. as announced by the Company in Current Report No. 30/2018 of 19 December 2018.

Transactions with related entities

In 2018 the Company and its subsidiaries concluded no transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

The following table presents main agreements in effect in 2018 entered into between LW Bogdanka S.A. and its subsidiaries.

Agreements between LW Bogdanka S.A. and MR Bogdanka sp. z o.o.
<ul style="list-style-type: none"> provision of services in the mechanical departments of machine operation underground performance of works in the LW Bogdanka S.A. mine supply of energy to the workshop-storage building repairs of machines and equipment, and their subassemblies performance of fitting and welding works delivery of elements of machines, equipment and steel structures provision of repair and construction services repairs of transport units lease, rent, and lending for use provision of telecommunication and Internet access services weighing service performance of works on Saturdays, Sundays and holidays provision of higher-rank supervision services

Agreements between LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o.
<ul style="list-style-type: none"> heat energy supplies water supplies and disposal of sewage, maintenance services of central heating, usable warm water and technological heat system devices sale of thermal coal and electrical power lease, rental and lending for use heating of inlet air on mine's shaft (service and maintenance supervision) rental of premises from Łęczyńska Energetyka for PSG and POS departments weighing service cold water supplies and waste water disposal from buildings in Zawadów service and maintenance of wastewater pump station, sewage disposal installation and network investor supervision

Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.
<ul style="list-style-type: none"> performance of mining works and provision of services in the LW Bogdanka S.A. mine on business days providing explosion works lease, rental and lending for use auxiliary works, haulage services provision of higher-rank mining supervision services in the mining facility provision of telecommunication and Internet access services

Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.
<ul style="list-style-type: none"> disposal of non-dangerous waste (waste rock) reclamation of land owned by LW Bogdanka located in Nadrybie Wies lease, rental and lending for use rental of office space in a multi-functional building

In 2018, LW Bogdanka S.A. was bound by a power purchase agreement with Enea S.A. For more information about agreements with the Enea Group and companies controlled by the State Treasury, see Note 30 of the Financial Statements of LW Bogdanka S.A. for 2018.





Information on financial instruments, bonds

Information on derivative financial instruments

As at 31 December 2018, the Company did not hold any open financial instruments.

Bonds

In 2018, the Company held a Programme Agreement signed on 23 September 2013 regarding the bond issue programme of up to PLN 300,000,000 concluded with Bank Polska Kasa Opieki S.A. on 23 September 2013.

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

All issued bonds were redeemed by the Company at maturity. On 31 December 2018 the Programme Agreement expired.

Use of proceeds from bond issue

In accordance with the Scheme Agreement relating to bond issue the objective of the issue means financing the current operations and investment needs of the Issuer (but it does not constitute the objective of the issue within the meaning of the Bonds Act). The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described on pages 17 and 19 of the Report.

Assessment of the Company's possibilities to enforce its investment plans

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

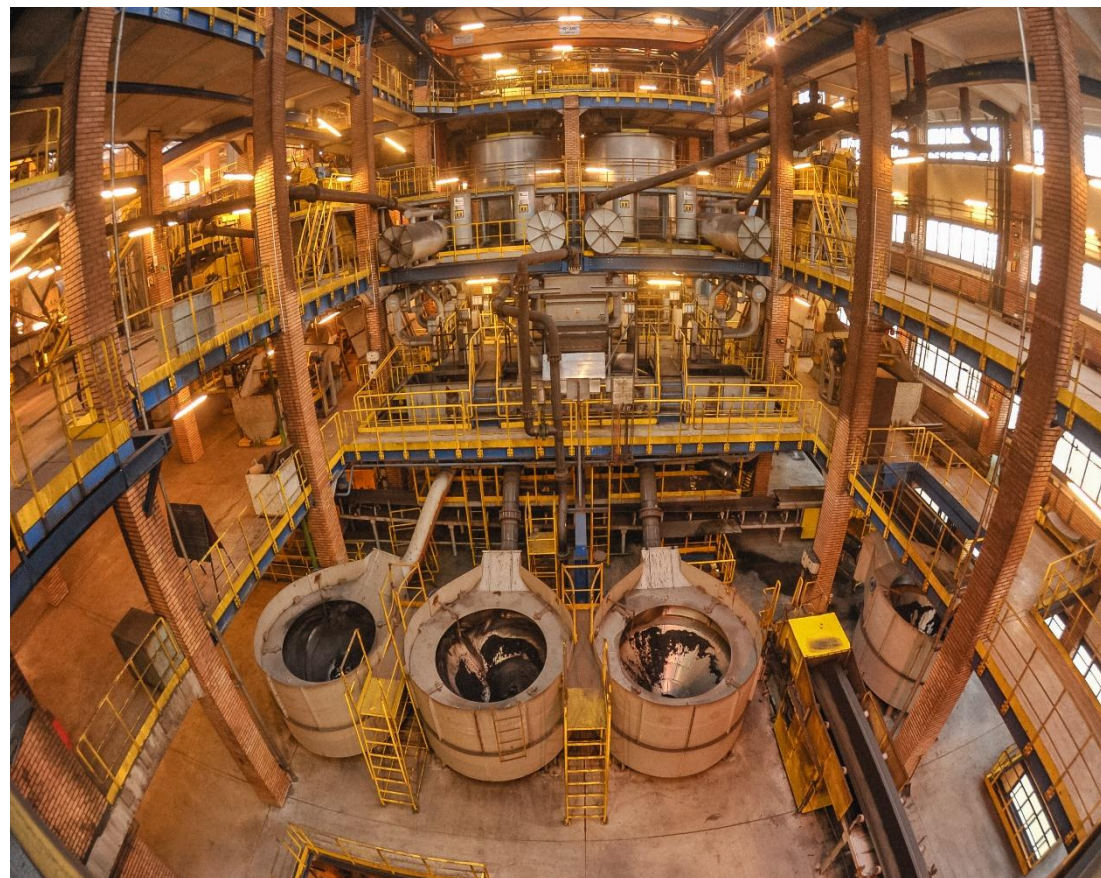
Lease and rental agreements in 2018.

In 2018 total revenue of LW Bogdanka S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 4,769,000 net.

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

LW Bogdanka 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 [PLN '000]
23 September 2013	300,000	300,000	-	0





Agreements concerning loans and borrowings



Information on loans granted

In 2018 the Company did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties and guarantees provided and received

In 2018, the Company did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In 2018, LW Bogdanka S.A. did not provide any guarantees.

Guarantees received by LW Bogdanka S.A.

On Company's order, bank Pekao S.A. (Polska Kasa Opieki S.A.) issued a bank guarantee up to PLN 50,000 to secure performance of an agreement with UTA Polska sp. z o.o. The guarantee expired on 31 January 2018.

Agreements concerning the subsidiaries' loans and borrowings

Łęczyńska Energetyka Sp. z o.o. continues the repayment of the loan granted in accordance with an agreement of 9 June 2014, Łęczyńska Energetyka sp. z o.o. was granted a loan (of PLN 26,580,000) by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) in Lublin, which was allocated to financing the construction of the Water Treatment Station in Bogdanka, completed in February 2016. The loan bears interest of 0.7 of the rediscount rate set by the Monetary Policy Council, not less than 4.0% annually. In 2014-2016, 100% of the granted loan amount was used, and its repayment will be gradually performed until 31 July 2024. Except for the above loan, between 1 January and 31 December 2018 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In 2018, the subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o. and MR Bogdanka sp. z o.o., granted, taken or terminated no loans or borrowings.

In 2018 the Company had one active loan agreement (amended by an annex concluded on 30 November 2018).

Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 31 December 2018 [PLN '000]	Repayment period
16 December 2016	29 November 2019	mBank S.A.	100,000	WIBOR 1M + margin	-	Overdraft

Guarantees received by LW Bogdanka S.A.

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



Coal prices on the international market

CIF ARA coal prices

- USD 91.7/tonne - the average coal price (CIF ARA) in 2018, i.e. +8.8% (compared to USD 84.3/tonne in 2017)
- USD 91.6/tonne - the average coal price (CIF ARA) in Q4 2018, i.e. -2.1% (compared to USD 93.6/tonne in Q4 2017), comparing Q3 2018 - decrease by 7.9%

Inventories in ARA ports

- 6.7 million tonnes of coal inventories at the end of December 2018 in the ARA ports – increase by 0.8 million tonnes compared to September 2018 (5.9 million tonnes)

Prices in the world's main ports

- The average coal price FOB Baltic Ports in 2018 amounted to USD 86.6/tonne, i.e. +9.3% (USD 79.2/tonne) compared to 2017
- The average coal price FOB Baltic Ports in Q4 2018 amounted to USD 85.6/tonne – which represents a decrease by 9.1% compared to Q3 2018 average (USD 94.2/tonne); compared to Q4 2017 average (USD 88/tonne) it represents a decrease by 2.7%

China

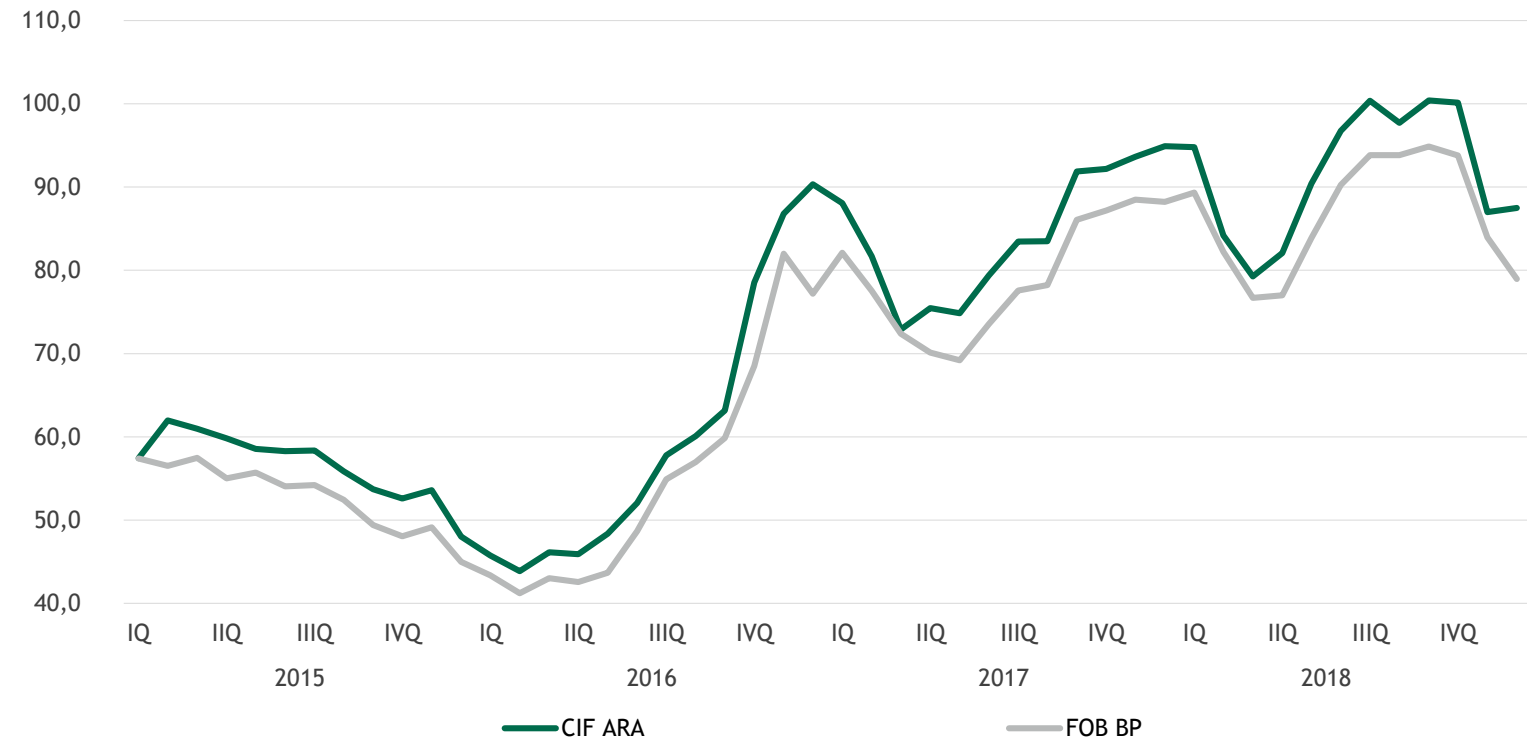
- approx. 3.6 billion tonnes of coal were produced in 2018, +2.9% compared to 2017 (3.5 billion tonnes)
- imports in 2018 were 281 million tonnes and were higher by approx. 3.7% compared to 2017 (271 million tonnes)

USA

- production in 2018 – 684 million tonnes, i.e. - 2.4% compared to 2017 (701 million tonnes)
- production in 2018 – 625 million tonnes, i.e. - 4.3% compared to 2017 (653 million tonnes)
- exports in 2018 – 105 million tonnes of hard coal, i.e. +20.7% y/y

Russia

- exports in 2018 (191 million tonnes), +3.0% y/y
- production in 2018 – 433 million tonnes, i.e. +6.1% y/y





Fine thermal coal prices on the domestic market

Fine thermal coal prices

- in 2018, the average annual price of fine thermal coal for commercial power plants was PLN 10.50 per GJ, the change dynamics was ca. 15.2% y/y
- in Q4 2018, the average price of fine thermal coal for commercial power plants was PLN 10.66 per GJ, comparing to Q3 2018 the price increased by 0.1%; the change dynamics in respect of average prices in Q4 2018 vs. Q4 2017 was ca. 14.5%
- average heating value of fine coal for commercial power plants was about 21.2 GJ

Prices based on the PSCMI index

- in 2018 the average price based on the PSCMI index was approx. PLN 10.95 per GJ, which compared to average price in 2017 (PLN 9.22 per GJ) represents an increase by approx. 18.7%
- in Q4 2018 the average price based on the PSCMI index was about PLN 11.24 per GJ, the price decreased by approx. 0.2% compared to Q3 2018 (PLN 11.26 per GJ), and compared to Q4 2017 (PLN 9.55 per GJ) the PSCMI index price increased by 17.6%





Production, sales and stocks of thermal coal at the end of 2018 in the domestic market

Production of thermal coal in Poland

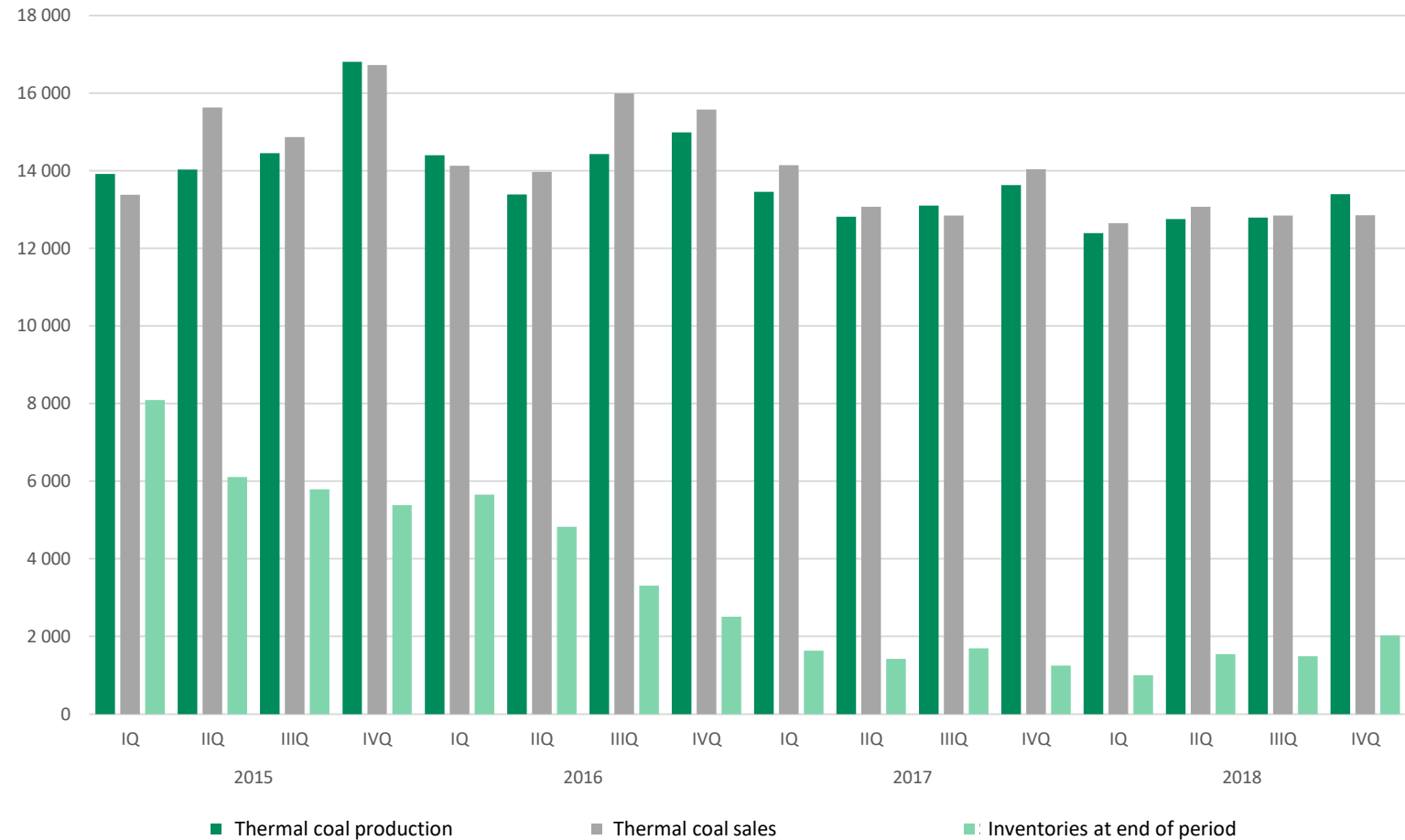
- In 2018, the production of thermal coal amounted to about 51.3 million tonnes, which represents a decline of 3.2% y/y

Sales of thermal coal market in Poland

- sales in 2018 amounted to about 50.4 million tonnes, including about 32.4 million tonnes of thermal fine coal sold to commercial power plants
- sales of thermal coal decreased by about 6.8% in comparison to 2017

Stock of coal in Poland

- the level of coal inventories at the end of 2018 totalled 2.0 million tonnes
- inventories went up by about 66.7% in comparison to the level as at December 2017





Production, sales and stocks of thermal coal at the end of 2018 in the domestic market

Key customers of thermal coal in Poland

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

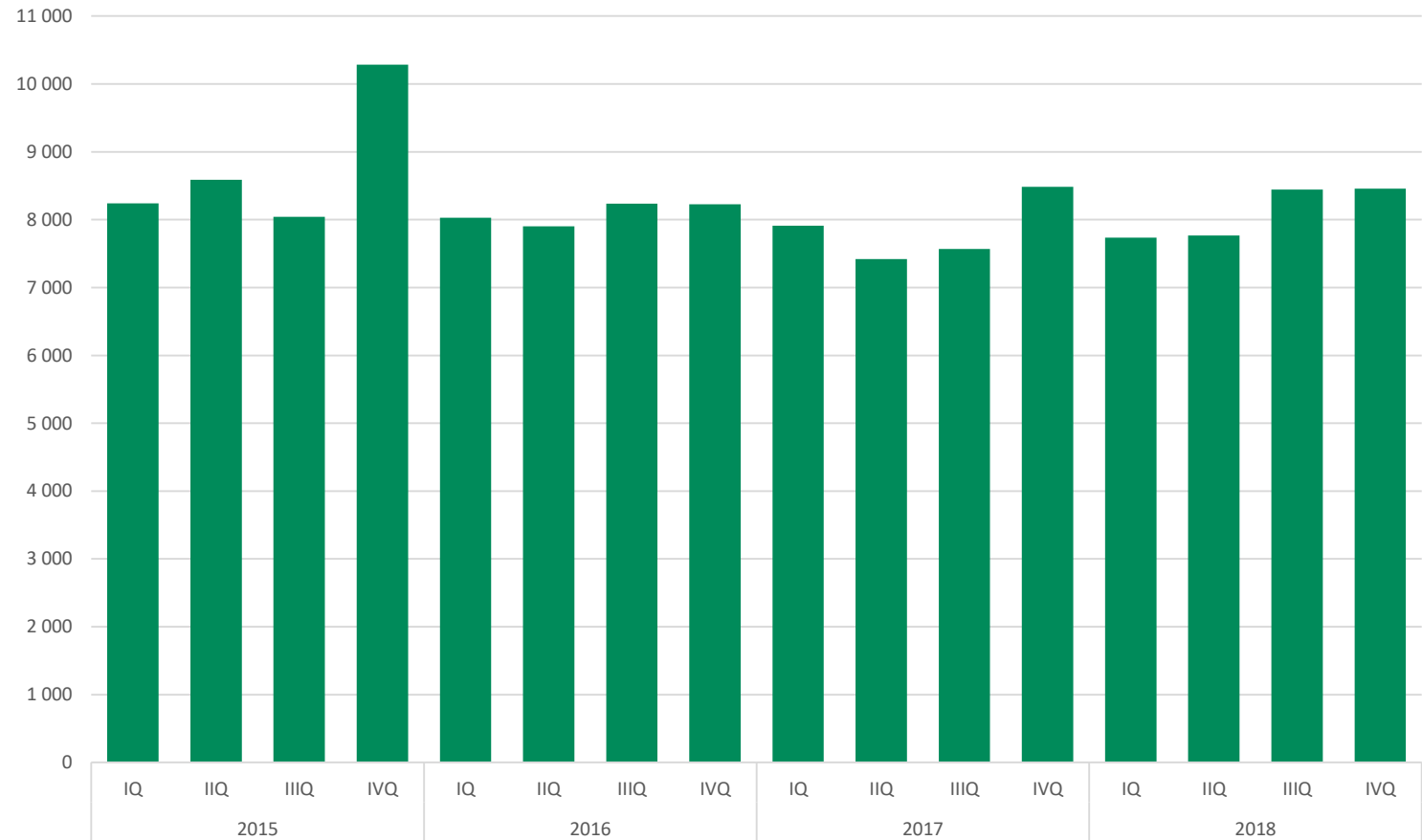
- Tauron
- PGE
- Enea
- PGNiG
- ENGIE
- ENERGA

Sales of thermal coal market in Poland

In January-December 2018, about 50.4 million tonnes of thermal coal were sold in Poland. 49.2 million tonnes of coal were delivered to the domestic market, including 42.0 million tonnes of thermal fine coal.

Export of coal

About 3.9 million tonnes of coal were exported, including approx. 1.2 million tonnes of thermal fine coal.



■ Thermal coal sales to commercial power plants



Electricity generation in Poland

Electricity generation - total

- In 2018, the production of electricity totalled about 165,214 GWh, which represents a decrease of 638 GWh (-0.4%) versus the same period of 2017.

Power generation from coal

- Coal was the main fuel used to produce electricity. In 2018 it was used to produce 131,477 GWh, which was a decrease by 406 GWh (-0.3%) compared to 2017.
- In 2018 coal accounted for 79.6% of total electricity production in Poland, and its share in the fuel remained at the same level in comparison with 2017.

Power generation from hard coal

- Hard coal served for producing electricity of 82,375 GWh (up by 3.1% compared to 2017).

Power generation from lignite

- Lignite was used to produce 49,072 GWh of electricity (5.6% less compared to 2017).

Power generation by wind farms

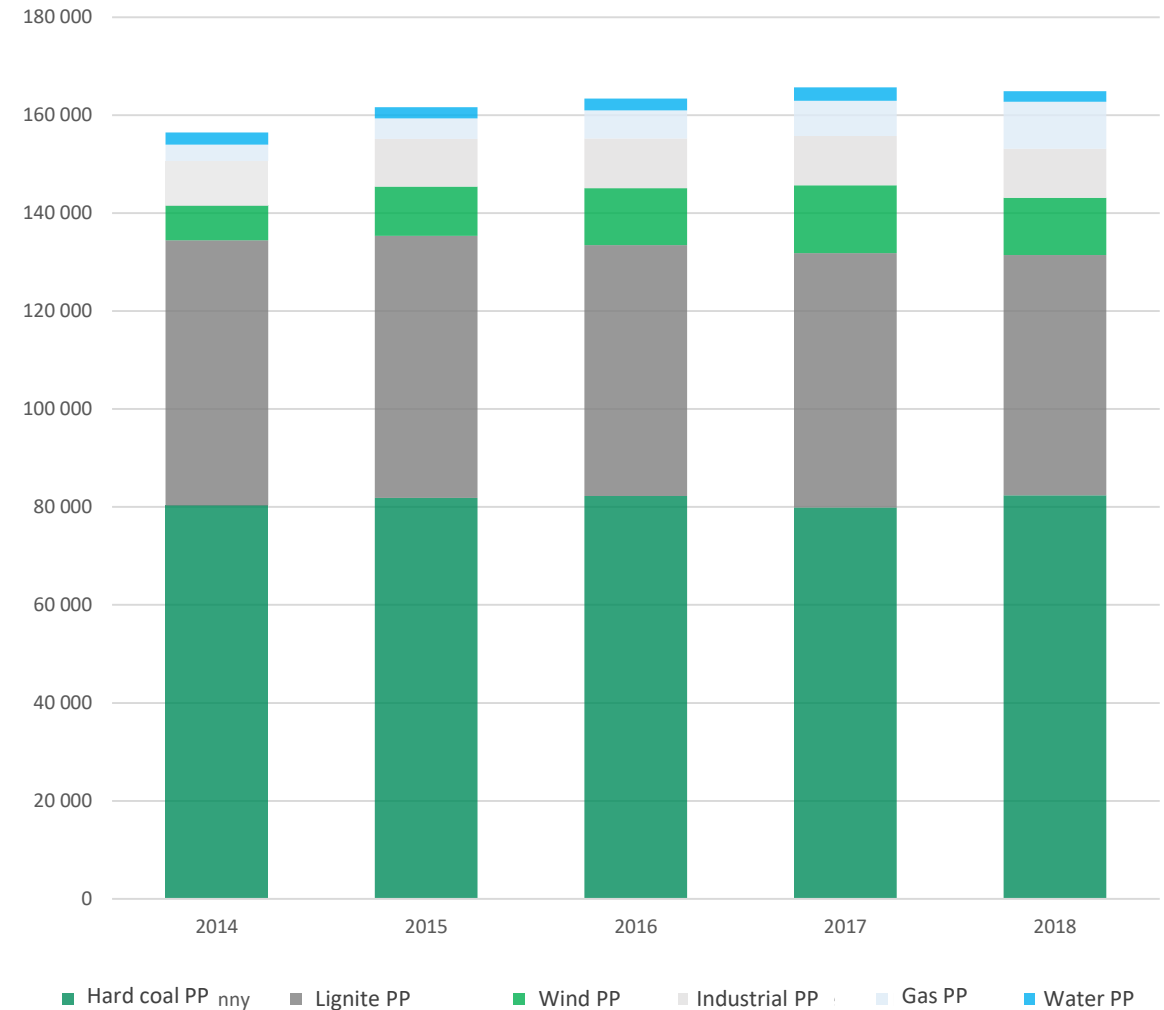
- Wind farms produced 11,678 GWh of electricity, which represents a decrease of almost 15.7% in comparison with 2017. Wind made up about 7.1% of electricity production.

Power generation by gas-fired power stations

- Gas power plants produced 9,590 GWh of electricity, which was an increase of 33.7% compared to 2017. Production of energy in gas power plants achieved the highest growth dynamics y/y.

Electricity consumption on the domestic market

- In 2018, the consumption of electricity totalled about 170,932 GWh, which represents an increase of 2,793 GWh (+1.7%) versus the same period of 2017.





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

Risk management

Risk management process:

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

Systems in place:

- Integrated System of Enterprise Risk Management (ERM) at the Enea Group

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

- Corporate Risk Management Policy at the Enea Group
- Corporate Risk Management Methodology at the ENEA Group - ERM procedures
- the LW Bogdanka Group Risk Register
- the LW Bogdanka Group Risk Map
- list of key and material risks of the LW Bogdanka Group
- programs of key risk mitigating measures at the Parent.

Risk management process

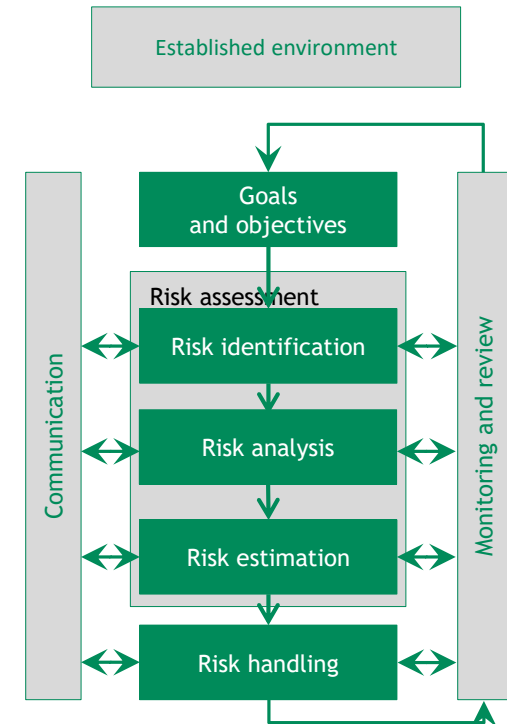
LW Bogdanka S.A., as part of the integration process within the Enea Group and in line with the relevant Group regulations, i.e. the applicable "Secondary Documents", has implemented since January 2018 the ERM system to be applied in the Group companies. As at 31 December 2018 a Parent Risk Register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

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

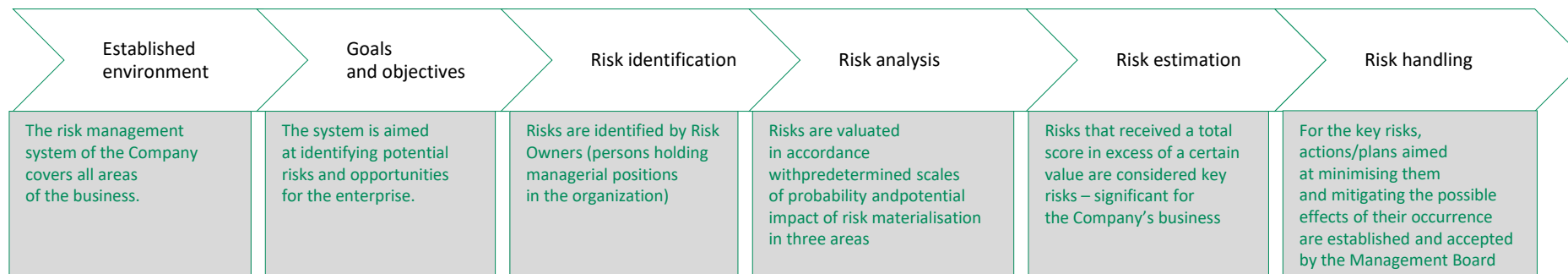
In subsequent periods, the system will be further adapted to the needs of the Group with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

The following bodies participate in the risk management system of LW Bogdanka S.A.:

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



Risk management process





Main risks to the Group by category

Business environment and market	Operational	Financial	Environmental protection	Legal
<ul style="list-style-type: none">• Risk associated with the social and economic situation in Poland and the world• Risk associated with the economic policy of the State in relation to the hard coal mining sector• Risk associated with the levels of prices for raw materials for power production in Poland and the world• Interest rate risk• 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	<ul style="list-style-type: none">• Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.• Technical and technological risk• Risk associated with high costs of technologies applied by the Company• Risk of IT systems malfunctioning• Risk of difficulties in supplies performed through rail transport• Customer insolvency risk• Risk associated with the strong position of the trade unions• Key supplier risk• Risk of price fixing by the suppliers	<ul style="list-style-type: none">• Liquidity risk• Insurance risk	<ul style="list-style-type: none">• Risk associated with reclamation and mining damage• Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment• Risk associated with management of waste generated after extension of the mining area• Investment risks associated with protected areas	<ul style="list-style-type: none">• Risk of change to tax laws• Risk of real property tax on mining excavations of LW Bogdanka S.A.• Risk associated with expenses for creating certain mining excavations and their classification for the purposes of corporate income tax• Risk of a change in the law and its interpretation and application• Risk of violating the stock exchange disclosure requirements



Risks associated with the social and economic situation of the Group

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

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

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

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



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

Plans of the Ministry of Economy concerning enterprises operating in the hard coal mining and power engineering sector have a significant influence on the market position of the LW Bogdanka Group. A "Draft of Poland's energy policy until 2040" was adopted on 23 November 2018. The assumption of the draft is that Polish economy will continue to be based on coal. The annual consumption of coal in the commercial power sector will not increase, but due to higher demand for electricity the share of coal in the structure will change. The total share

of coal in electricity production will stand at a level of approx. 60% in 2030. These assumptions give a positive sales perspective, which thus means retaining the production level by the Group.



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

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

Starting from 2016, an increase in prices of thermal coal can be observed on the international market, where high prices of the thermal coal are maintained to date. In 2017 also on the Polish market gradual increase in prices of thermal coal was visible, which resulted from a change in the demand and supply situation on this market and a necessity to increase the level of import. 2018 saw further price rises in the domestic market and a significant increase in coal imports, which was related to a lower supply in Poland and the necessity to supplement inventories by the power sector.



Interest rate risk

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

to be refinanced.

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

Countermeasures: monitoring and control of debts.



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

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

These include:

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

The consequences may include:

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

Countermeasures:

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

The following factors are also of importance:

- use of advanced and reliable mining machines and equipment, which reduces the risk

of industrial malfunctions

- no geological disruptions and the fact that the mining seams are relatively regularly laid out
- relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which the mine extracts hard coal
- high qualifications of the personnel.





Risks associated with the social and economic situation of the Group

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

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

In the Polish energy sector, a great majority of electricity is generated on the basis of coal (hard coal and lignite). The production of electrical or heat energy from coal is connected with significant CO₂ emissions. These limitations or introduction of stringent standards or emission limits of CO₂, 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 have been adopted with respect to quality standards applicable to coal sold on the Polish market. In consequence, the above restrictions or plans of further 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.





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 Company is the necessity to secure future extraction possibilities by providing access to new coal resources.

Restriction of the mining capacity may bring the following consequences:

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

As a result of measures taken so far by LW Bogdanka S.A., in November 2017 a mining licence was obtained for the "Ostrów" area, which allowed the held resources to be increased nearly two-fold and ensured raw materials base for the following years of the mine's operations. Concurrently LW Bogdanka S.A. strives to further secure resources located in the vicinity of the areas where it conducts mining activities - on 11 May 2018 it resubmitted an application for mining licence in the K-6, K-7 area.



Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions).

In this group of risks, there is also a risk

of unexpected, usually local, deterioration of the quality of the deposit.

Countermeasures:

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



Risk associated with high costs of technologies applied by the Company

The technology of thermal coal extraction involves the use of highly specialised machines and equipment. Due to global concentration of producers of such machines and equipment, there is a risk of unexpected increase in 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 natural dangers, e.g. related to water or methane explosion. This may altogether increase coal mining costs.

Countermeasures: controlling costs and capital

expenditure, use of highly-specialised machines and equipment, high work culture as far as compliance with mining and geological law and attention to equipment are concerned.



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:

- periodic audits with respect to ICT security
- reviews of authorisations to IT systems
- raising security levels through constant monitoring of network traffic, potential threats and implementing sealing solutions to increase safety of access to IT systems
- making safe back-up copies of systems and data to guarantee quick system recovery in case of a breakdown
- updating IT strategy at the levels of LWB and the Enea Group.



Risk of difficulties in supplies performed through rail transport

Since mid-2017 a comprehensive modernisation of railway line No. 7 (sections Lublin – Puławy and Dęblin – Pilawa) has been underway; therefore the recipients of the Parent's coal will be forced to use alternative railway routes. While line No. 7 is closed, the rail transport is directed mainly via line No. 30 and 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.

According to the press release issued by PKP Polskie Linie Kolejowe S.A., on 2 October 2018 the company demanded the contractor, Astaldi S.p.A together with consortium members, to resume works under the contract for modernisation of railway line No. 7 in the Dęblin – Lublin section, which was related to the earlier withdrawal of the contractor from these works. Astaldi S.p.A and consortium members failed to resume works, therefore on 5 October 2018 PKP Polskie Linie Kolejowe S.A. made a statement on withdrawal from the contract for the reasons attributable to consortium members. As announced in the press release of PKP Polskie Linie Kolejowe S.A. issued on 4 January, the inventory-taking was completed in December, therefore in March 2019 new contractors may start work at the investment site.





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 and other current receivables of the Group accounted for 5.2% of the carrying amount and 11.6% of its revenue for the last 6 months of 2018. The share of trade receivables in trade and other current receivables accounted for 79.4%.

Countermeasures:

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



Risk associated with the strong position of the trade unions

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group associating 63% of employees (there are four trade union organisations at LWB associating 70% 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.



Risk associated with retaining and attracting human resources for the Company

The labour market is currently an employee's market, therefore employees can easily change work to a more attractive one. Any failure to offer competitive employment and retain salaries at the level required by market standards may in consequence lead to losing high-profile employees.

Countermeasures: building generational continuity, succession plans, cooperation with local vocational schools, implementing development programmes, providing employees with options to promote and develop within the Company's structure, building friendly atmosphere and creating job satisfaction.



Key supplier risk

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

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

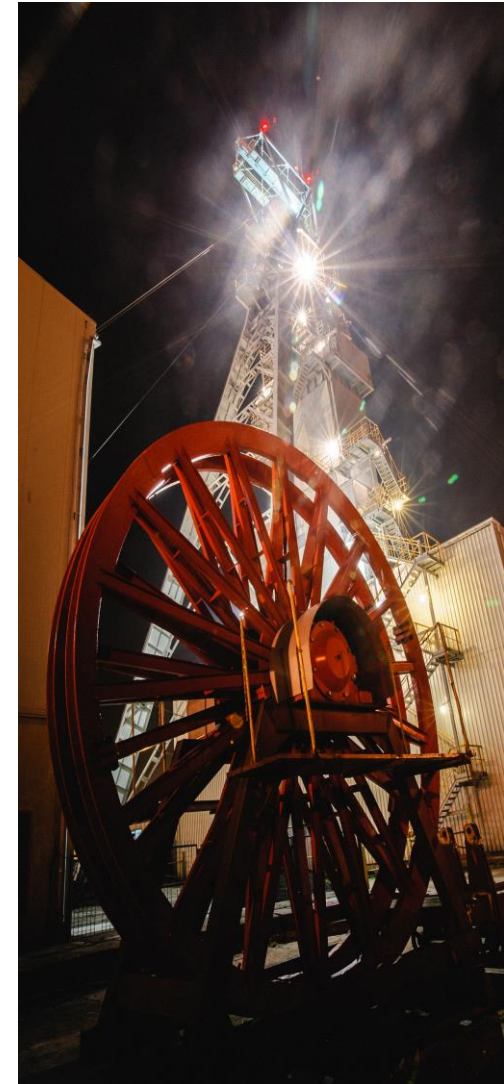


Risk of price fixing by the suppliers

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

Countermeasures:

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





Financial risks and risks associated with environmental protection

Liquidity risk

Important factors in the assessment of insolvency risk are:

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

The Group's cash at hand as at 31 December 2018 amounted to PLN 170,793,000. The current liquidity ratio for the Group is 1.28, and quick liquidity ratio is 1.05.

In 2018, net flows from operating activities generated by the LW Bogdanka Group stood at a level of PLN 458,874,000 with capital expenditure of PLN -418,232,000 (CFFO PLN 40,642,000).

Countermeasures: long- and short-term analyses and projections to help determine cash needs. Those activities make it possible to plan revenue and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses. Furthermore, in order to optimise cash management, the Parent obtained debt financing in the form of an overdraft credit facility.



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. The current insurance agreement covering the above risks will expire at the end of 2019, therefore the Group started the process of renewal of insurance coverage for further period. 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 undertakes measures with a view to mitigating the exposure to risk related with the protection of personal data.



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, gradually performing drainage hydrotechnical works as well as land reclamation within the impacted areas.



Risk associated with tightening of standards and regulations of law with respect to

environmental protection and the obligation to obtain permits for the economic use of the environment

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

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

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



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

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

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

Countermeasures: The Group performs works connected with increasing the height of the existing mining waste utilisation facility and expanding

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



Investment risks associated with protected areas

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

All planned investment activities must be analysed from the perspective of their potential negative impact on protected areas. There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter. These investment restrictions may require higher investment expenditure and therefore may affect the financial result.

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





Risks 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 or sometimes changes only to interpretations may generate all kinds of risks. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

Countermeasures:

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



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

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

In 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 Financial Statements of LW Bogdanka S.A., Note 17.



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 focused on the Parent's approach to tax treatment of costs of wall reinforcements and costs of making movable excavations and challenged the correctness of the settlements. In consideration of the above, the Parent disclosed the amount of tax interest on that account (i.e. PLN 11,373,000) as contingent liability. For more information refer to the Consolidated Financial Statements of the LW Bogdanka Group prepared as at 31 December 2018, Note 29.



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 (which is unequivocally confirmed by conclusions drawn by the inspection Authority with respect to the customs and tax inspection for 2012-2015 carried out at the Parent) 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 Group also files for binding interpretations of law. Despite these measures, it is not possible to entirely eliminate

the risk. However, the Management Board believe such risk to be substantially limited.



Risk of violating the stock exchange disclosure requirements

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

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





Work conditions and technical risks

Working conditions

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

Natural risks

The following natural threats occur in the mine:

- Methane hazard



- Water hazard



- Coal dust explosion hazard



- Fire hazard



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

None of the above natural threats occurred in 2018.

Technical risks

In 2018, on average 68 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present.

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

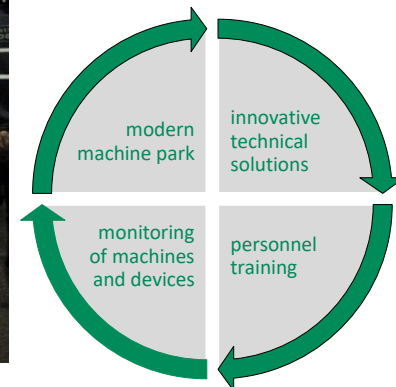
Reduction of technical risks and their impact on employees is effected by:

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

on average 68 employees are exposed to mechanical risk each day



we mitigate technical risks by:





Harmful and nuisance factors

Harmful and nuisance factors

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

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

The internal procedure covers the following measurements:

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

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

Work accidents

In 2018, at LW Bogdanka S.A. there were 102 accidents at work: 1 major accident and 101 accidents causing temporary inability to work. The number of accidents and basic accident rates are presented in the table.

In 2018 the frequency rate (per employees) dropped by 4%, and the frequency rate (per workdays) dropped by 17%.



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

	Underground					Other
	Dustiness	Noise	Vibrations	Microclimate	Chemical agents	
2015	1,821	1,139	38	435	-	-
2016	1,616	1,027	17	431	-	-
2017	1,484	1,021	6	381	-	-
2018	894	520	26	338	-	-

Number of accidents and accident rates at the Company in 2015-2018

	2015	2016	2017	2018
Number of accidents – total	81	81	99	102
including: fatal	-	-	1	-
including: causing serious injury	3	1	-	1
frequency rate (per 1000 employees)	17.2	18	22.3	21.4
frequency rate (per 100,000 workdays)	8.2	8.7	11.6	9.6

Work accident costs at the Company in 2015-2018

	Number of accidents	including:		Benefits paid [PLN '000]
		fatal	major	
2015	81	-	3	370.1 (for 73 injured)
2016	81	-	1	283 (for 57 accidents and 1 occupational disease)
2017	99	1	-	489.7 (for 74 accidents and 1 occupational disease)
2018	102	-	1	-



Workforce changes

Workforce at the Group

2018 brought a 2.9% increase in employment in the Group. The highest increase in FTJs (in %) was recorded in LW Bogdanka S.A. In 2018 the personnel employed at the Parent accounted for 88.2% of total employment in the Group. Blue-collar workers accounted for 87.7% of all employees. In comparison with 2017 the number of underground staff went up by 113.5 workers, i.e. 3.0%. Underground personnel constituted the main group employed in the Group, i.e. 72.5%.

HR policy implemented in 2018

The LW Bogdanka Group's personnel policy is implemented with the aim of effective HR management by hiring, developing and retaining an optimal level of workforce to enable proper fulfilment of the Group's objectives as set forth in the Articles of Association. In particular, it aims at selecting and shaping the employee's competencies in such a way as to prepare them as best as possible for effective implementation of the Group's goals and objectives, while having a sense of self-fulfilment and satisfaction from their work.

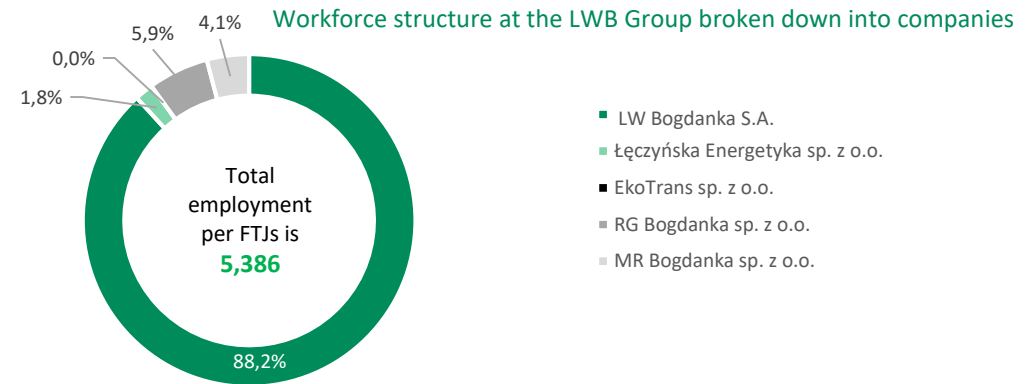
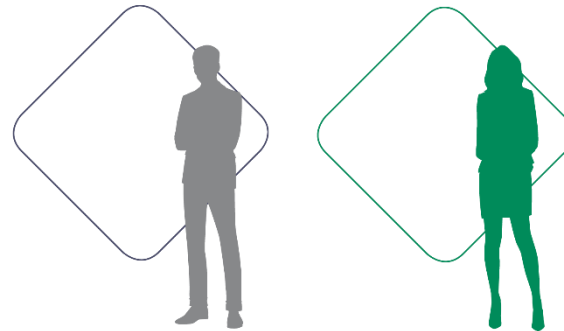
The occurrence of a generation gap is prevented by:

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

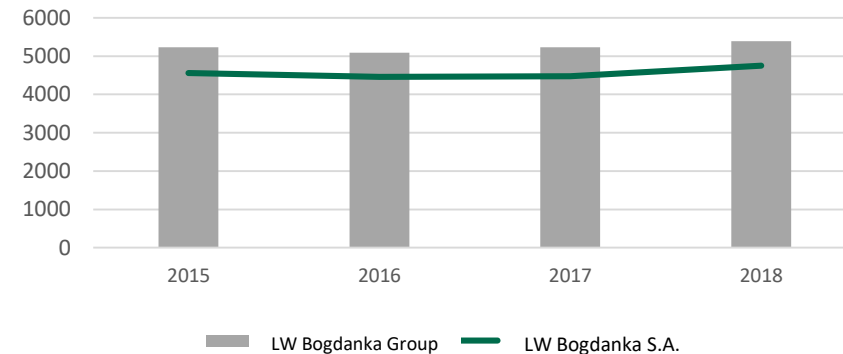
and acquiring the best candidates.

Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2018, the LW Bogdanka Group organised internal and external training. Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their knowledge.



[FTJs as at 31 December]	2015	2016	2017	2018	Structure	Change 2018/2017
Total						
LW Bogdanka S.A.	4,554.6	4,461.6	4,470.2	4,749.3	88.2%	6.2%
Łęczyńska Energetyka sp. z o.o.	106.0	100.0	98.0	97.0	1.8%	-1.0%
EkoTrans sp. z o.o.	2.0	2.0	1.0	1.0	0.0%	0.0%
RG Bogdanka sp. z o.o.	339.0	297.0	424.1	318.0	5.9%	-25.0%
MR Bogdanka sp. z o.o.	228.0	231.2	239.8	220.4	4.1%	-8.1%
LW Bogdanka Group	5,229.6	5,091.8	5,233.1	5,385.7	100.0%	2.9%





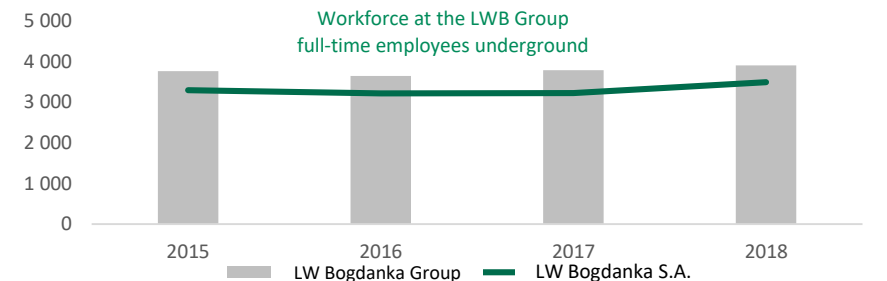
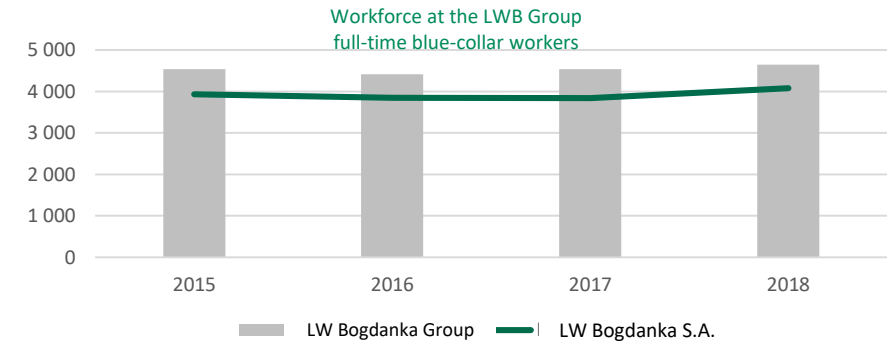
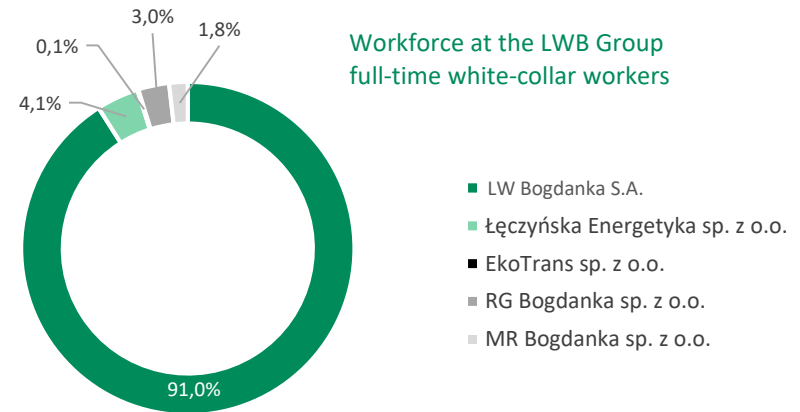
Workforce

Workforce changes

[FTJs as at 31 December]	2015	2016	2017	2018	Structure	Change 2018/2017
White-collar workers						
LW Bogdanka S.A.	627.6	614.6	633.2	675.3	91.0%	6.6%
Łęczyńska Energetyka sp. z o.o.	34	32	30	30	4.1%	0.0%
EkoTrans sp. z o.o.	2	2	1	1	0.1%	0.0%
RG Bogdanka sp. z o.o.	20	17	15.1	22	3.0%	45.7%
MR Bogdanka sp. z o.o.	12	14	14.5	13.5	1.8%	-6.9%
LW Bogdanka Group	695.6	679.6	693.8	741.8	100.0%	6.9%

[FTJs as at 31 December]	2015	2016	2017	2018	Structure	Change 2018/2017
Blue-collar workers						
LW Bogdanka S.A.	3,927.0	3,847.0	3,837.0	4,074.0	87.7%	6.2%
Łęczyńska Energetyka sp. z o.o.	72.0	68.0	68.0	67.0	1.4%	-1.5%
EkoTrans sp. z o.o.	-	-	-	-	-	-
RG Bogdanka sp. z o.o.	319.0	280.0	409.0	296.0	6.4%	-27.6%
MR Bogdanka sp. z o.o.	216.0	217.2	225.3	206.9	4.5%	-8.2%
LW Bogdanka Group	4,534.0	4,412.2	4,539.3	4,643.9	100.0%	2.3%

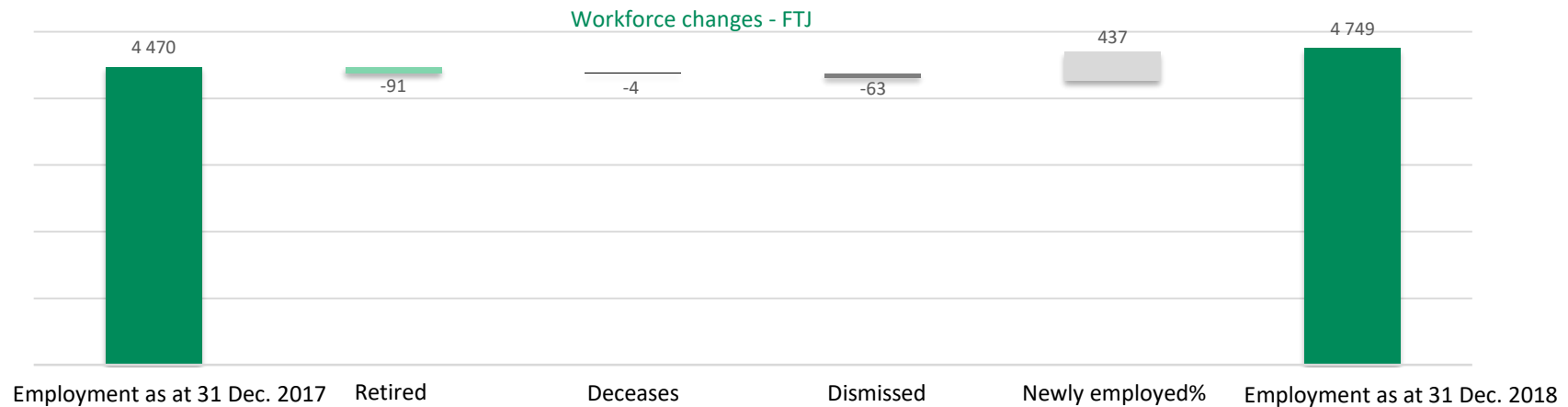
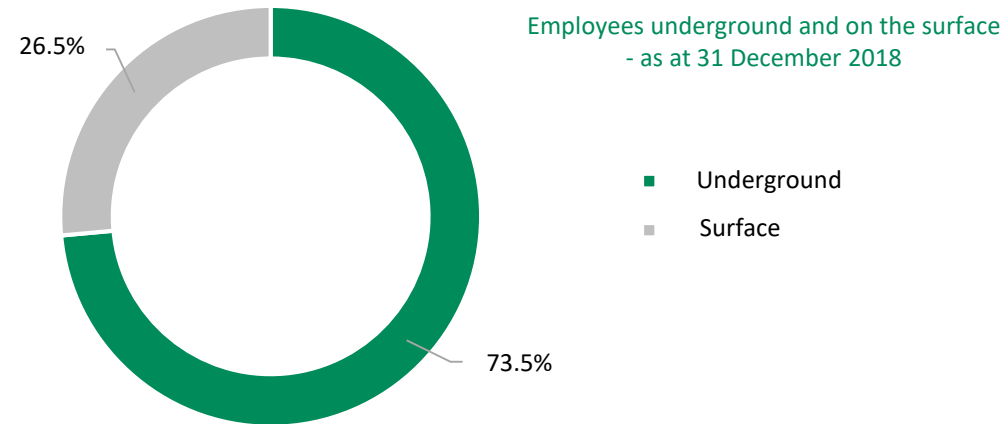
[FTJs as at 31 December]	2015	2016	2017	2018	Structure	Change 2018/2017
Underground workers						
LW Bogdanka S.A.	3,295.0	3,214.0	3,224.0	3,493.0	89.5%	8.3%
Łęczyńska Energetyka sp. z o.o.	-	-	-	-	-	-
EkoTrans sp. z o.o.	-	-	-	-	-	-
RG Bogdanka sp. z o.o.	323.0	281.0	407.5	278.9	7.1%	-31.6%
MR Bogdanka sp. z o.o.	148.0	151.2	158.8	131.9	3.4%	-16.9%
LW Bogdanka Group	3,766.0	3,646.2	3,790.3	3,903.8	100.0%	3.0%





Workforce changes at LW Bogdanka S.A.

- As at the end of 2018, the Company employed 4,749,3 people, which represents a 6.2% increase compared to 4,470,2 people at the end of 2018.
- underground and surface employees make up 73.5% and 26.5% of the head count, respectively. Due to the nature of its business, the Company mainly employs men – they account for 94.5% of the head count (women – 5.5%).
- in terms of age, the dominant group of employees is composed of people between 30 and 40 years of age (46.2%).
- the largest group is made of persons with secondary education. Their share in total employment at the end of December 2018 was 56.7%.
- 1,809.4 employees (38.1%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

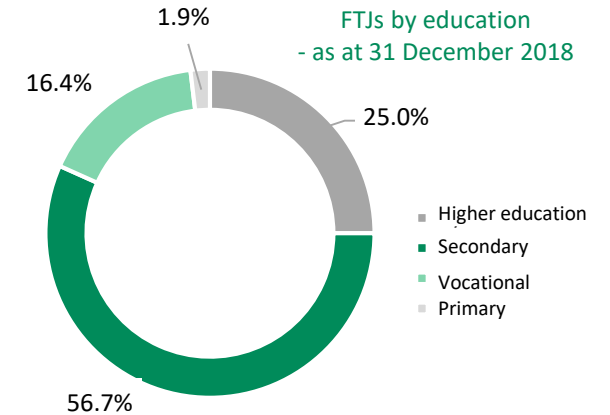
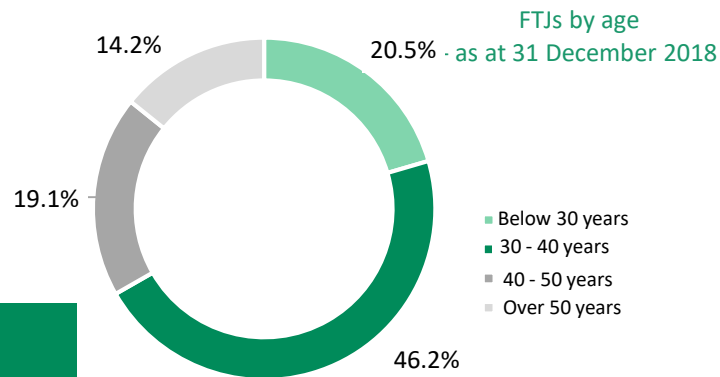
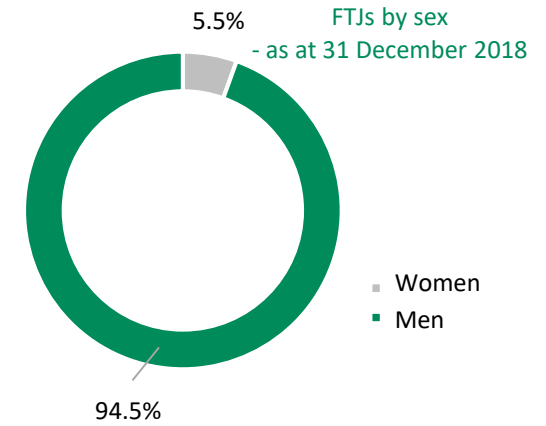
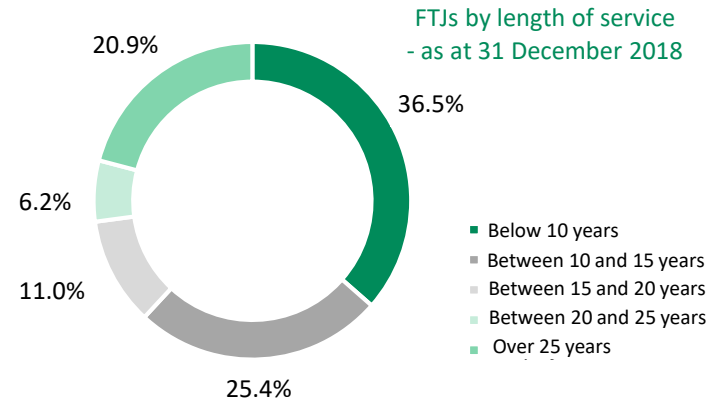




Employment structure in LW Bogdanka S.A. by FTJs



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





Average monthly remuneration

Principles of remuneration in the Company are regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka". The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including tables of applicable rates, bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others. The Collective Bargaining Agreement also applies to key managers referred to in rule VI.4 of the Code of Best Practice.

In 2018 the payroll fund was used in accordance with Additional Protocol No. 63

- to the Collective Bargaining Agreement which includes an increase in base pay as from 1 March 2018 by 5%
- monthly bonus settled on the basis of:
 - the degree of compliance with monthly production targets
 - sale of commercial coal
 - the average sale price achieved
 - the degree of compliance with the Company's cost budget for individual periods.

In its remuneration policy the Company pays particular attention to reflecting the employee performance in the remuneration amount. Bonuses and awards go to those employees who show their dedication to and initiative at work.

Generation Change Programme

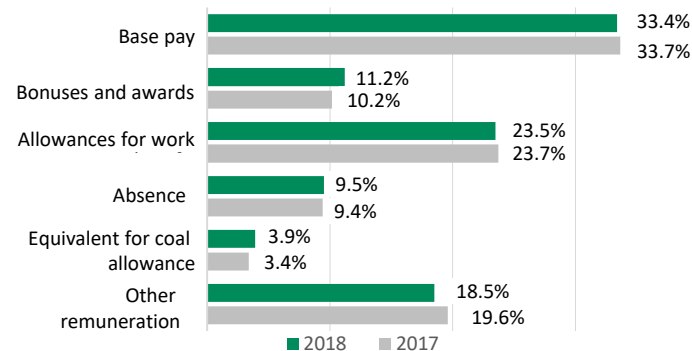
In 2018 the first stage of the generation change was completed, i.e. the Voluntary Redundancy Programme.

In 2018, 33 employees participated in the Programme. Total cost of compensation, pays upon retirement due to old age and jubilee awards paid out for 2018 amounted to PLN 2,158,000. The cost of the whole Generation Change Programme was PLN 10,915,000.

At the same time the Company has introduced the "Mining Leaders - LiGa" programme. The programme is pursued with a view to enabling the employees to raise their qualifications and skills necessary for correct and efficient functioning of the Company. It is one of the components of the Company's strategy.

By way of the Voluntary Redundancy Programme and the "Mining Leaders - LiGa" programme the Company intends to avoid negative consequences of changes taking place on the labour market and safeguarding vital interests of the Company. The Company estimates that current actions will take two or three years to show their potential effects.

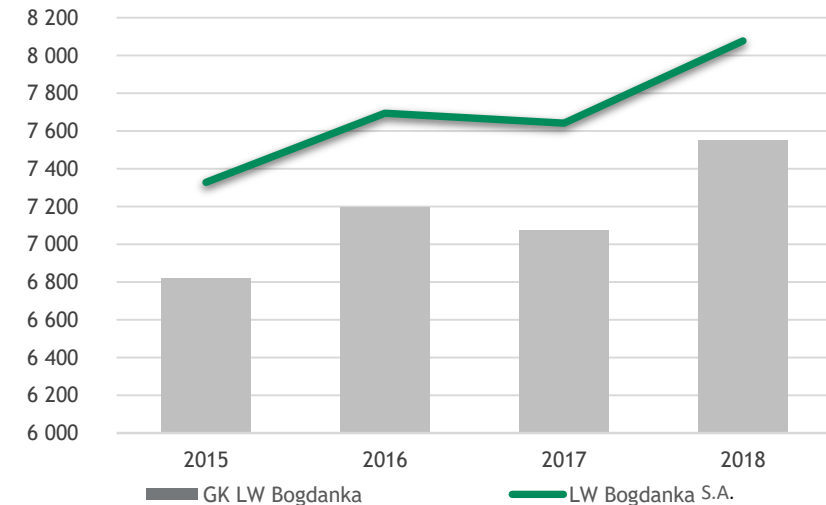
Remuneration structure at LW Bogdanka S.A. in 2017 and 2018 at LW Bogdanka S.A.:



[PLN]	2015	2016	2017	2018	Change 2018/2017
LW Bogdanka S.A.	7,327	7,693	7,641	8,077	5.7%
Łęczyńska Energetyka sp. z o.o.	4,824	4,868	4,780	4,882	2.1%
EkoTrans sp. z o.o.	7,706	9,574	8,623	6,074	-29.6%
RG Bogdanka sp. z o.o.	2,880	3,248	3,365	3,520	4.6%
MR Bogdanka sp. z o.o.	3,245	3,715	4,150	3,748	-9.7%
LW Bogdanka Group	6,820.0	7,193.0	7,072.0	7,551.0	6.8%

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

Average remunerations 2014-2017





LW Bogdanka Group's marketing activities

Types of promotional activities:

Majority of promotional activities is undertaken with a view to creating a positive brand image of the Bogdanka mine, in particular among the local environment. Such an approach primarily results from the necessity to include the social responsibility aspects in the Company's business strategy and from the target portfolio of customers of thermal hard coal produced by the Company. That is why the budget for the image-related local environment impact has been divided into two parts: CSR budget and promotion budget (which includes funds for sponsorship activity). Although the sponsorship budget has been included in the promotional group, given the dependence of the sponsorship strategy on the CSR area, the Company, when selecting the beneficiaries of the sponsorship budget, takes into account mainly the significance of the given organisation in the specific community. The sponsorship strategy of LW Bogdanka includes the following sub-areas:

- I. Sports sponsoring – primarily treated as a tool of the mine's impact on the local environment of people who like sport and are involved in sport and sport-related activities. Given the tradition of sponsorship activities, they were – as in previous years – carried out by cooperation with:
 - a) main beneficiary of this budget, i.e. Górnik Łęczna S.A., which manages tournaments of the men's football team that competes in the 1st League (in the spring round of the 2017/2018 season) and in the 2nd League (in the autumn round of the 2018/2019 season). This entity also runs the Sports Academy, teaching more than

350 children from the region of Łęczna and a Sports Championship School (having the status of a secondary school), the first school of this kind in the Lublin province.

- b) The GKS Górnik Łęczna Association running the women's football section whose team won the title of Champion of Poland in the 2017/2018 season. It also owns and manages sports facilities in Łęczna, where the players of Górnik Łęczna S.A. practice and play matches.
- c) MGKS Gwarek Łęczna, which is a boxing club representing boxers who have a good success rate in boxing tournaments on both national and international level.
- d) The representatives of popular and well received motor sports in the Lublin region, i.e. SpeedCar Lublin (cinder-track racing) and Szymon Ładniak – a young and talented rally driver on whom the lovers of this discipline pin their hopes.
- e) Polish Mountaineering Association running, under the leadership of Piotr Tomala, a Lublin-based Himalayan mountaineer, a cycle of training expeditions to Himalaya mountains with a view to preparing Polish climbers to a winter attempt on K2, including the first expedition to Manaslu.

In exchange for the sponsorship all the abovementioned entities provide LW Bogdanka S.A. with promotional and advertising services specified in an agreement.

- II. Social and cultural sponsorship – understood as all activities related to the provision of promotional services to the mine by the sponsored entities, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. The most recognisable event which the Bogdanka mine has sponsored for several years

is Carnival of Magicians. Another project associated with Bogdanka is the Lublin Artistic Salon.

The remainder of the promotion budget was used in 2018 for public relations and publicity activities, with a media image & product campaign carried out through various communication channels (internet, press, TV, and various events including fairs). The promotion-related tasks are executed in-house by the Company's communication, marketing and promotion units and in cooperation with CSR units and the Company's sales department. The fundamental PR operations conducted in 2018 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies.

The activities undertaken in the CSR area include those which are a response to the needs of key stakeholders groups and market challenges. They are based on four pillars defined in the social responsibility strategy for 2018-2021, namely: ensuring the highest level of work safety, guaranteeing safety to the direct natural environment, stimulating development of the local community and transparent and responsible management practices. On its way to attaining the set goals the Company launches programmes and initiatives in health promotion and dissemination of OHS knowledge, protection of biodiversity in the areas under the mine's impact, addressing social problems in close cooperation with local non-government organisations, development of non-financial reporting skills or pursuance of a dialogue with the stakeholders.

Advertising budget of LW Bogdanka S.A.	Execution [PLN '000]
Promotion	705.3
CSR	241.6
Sports sponsorship	6,524.5
Social/cultural sponsorship	386.1
Total	7,857.5





LW Bogdanka Group's marketing activities

Results of the image-building and product promotion:

Achieving social aims:

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

Achieving marketing objectives:

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



Donations

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

In its operations, apart from achieving positive economic results, LW Bogdanka S.A. has to show interest in fostering values that integrate local communities.

This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. The Company also sponsors sports and cultural activities. This philosophy benefits the Company and also helps create a positive image for it as a company which invests time and energy in non-commercial activities and, in particular, stimulates local initiative.

The donations made by the Company in 2018 amounted to PLN 398,900.





Information on the auditor responsible for auditing the report and rules for preparing the annual consolidated and separate financial statements as well as court and out of court proceedings

Information on the auditor responsible for auditing the report

On 5 January 2018, the Parent's Supervisory Board adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.) with registered office in Warsaw, as an entity authorised to:

- review the Parent's financial statements and the Group's consolidated financial statements for the first halves of 2018, 2019 and 2020,
- audit the financial statements of the Parent and the consolidated financial statements of the Group for 2018, 2019 and 2020.

PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.) since 16 February 1995 has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 144.

The review of the Parent's financial statements and Group's consolidated financial statements for the first halves of 2015, 2016 and 2017 and the audit of the Parent's financial statements and the Group's consolidated financial statements for 2015, 2016 and 2017 was performed by Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (formerly: Deloitte Polska Spółka

z ograniczoną odpowiedzialnością Spółka komandytowa) with registered office in Warsaw. Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.

Basis of preparation of the Annual Consolidated and Separate Financial Statements

The consolidated financial statements of the LW Bogdanka Group and separate financial statements of LW Bogdanka S.A. for the period from 1 January 2018 to 31 December 2018 were prepared on the basis of the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission.

The consolidated financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value as well as share-based payments. Except for changes resulting from the first-time application of *IFRS 9 "Financial Instruments"* and *IFRS 15 "Revenue from Contracts with Customers"* the separate and consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

Differences between financial results and projected results for 2018 published earlier

In 2018 the LW Bogdanka Group did not publish projections of the separate or consolidated financial results of the Group.

Court and out of court proceedings

As at the day of publishing the Report no material liabilities or claims proceedings are pending, in which LW Bogdanka S.A. or any of its subsidiaries is involved.

Arrangement proceedings

In 2018, the Company was not a party to arrangement proceedings.



The remuneration of the auditor auditing the financial statements as well as for the PricewaterhouseCoopers entities (for 2017: Deloitte) for all services provided in 2018 and 2017 is as follows: [PLN '000]

	2017	2018
•audit of the annual financial statements	105	262
•review of financial statements	70	45
•other attestation services	25	-
•other certifying services (verification of ratios)	11	7
Total	211	314



3

Financial Standing



Production, sales and inventories of coal

Production, sales of commercial coal of the Company

['000 tonnes]	Q4 2017	Q4 2018	Change	Change %	2017	2018	Change	Change %
Gross coal extraction	3,770	3,581	-189	-5.0%	13,979	14,894	915	6.5%
Production of commercial coal	2,338	2,187	-151	-6.5%	9,050	9,007	-43	-0.5%
Yield (%)	62.0%	61.0%	-1.0 p.p.	-	64.7%	60.5%	-4.2 p.p.	-
Sale of commercial coal	2,453	2,155	-298	-12.1%	9,151	8,943	-208	-2.3%
New excavations (km)	8.3	8.4	0.1	1.2%	30.7	37.0	6.3	20.5%

Inventories of commercial coal of the Company

['000 tonnes]	31 Dec. 2017	30 Sep. 2018	31 Dec. 2018	Change [%] 31 Dec. 2018/ 31 Dec. 2017	Change [%] 31 Dec. 2018/ 30 Sep. 2017
Inventories of coal	24	57	88	266.7%	54.4%

Structure of commercial coal production

[%]	Q4 2017	Q4 2018	2017	2018
Fine coal	97.5%	99.1%	97.8%	98.8%
Nut coal	1.1%	0.1%	0.9%	0.2%
Pea coal	1.4%	0.8%	1.3%	1.0%
Total	100.0%	100.0%	100.0%	100.0%

Production of coal

(+) gross extraction of coal in 2018 increased by 6.5%, i.e. 915,000 tonnes
 (+) production of commercial coal in 2018 was 9,007,000 tonnes, almost the same as in 2017
 (-) yield for 2018 was 60.5% compared to 64.7% for 2017
 (-) difficult geology and mining conditions in extracted walls in Q1 and Q4 Collapses of roof rocks were the reason for temporary discontinuation of extraction in certain walls and lowered the yield.

Sale of coal

(-) in Q4 2018 the sales of coal dropped by 12.1% compared to Q4 2017
 (-) in 2018 the sales of commercial coal amounted to 8,943,000 tonnes, i.e. by 2.3% less than in 2017
 (-) transport-related limitations due to the modernisation of Line 7 (the main and shortest transport route for Enea Wytwarzanie sp. z o.o., Elektrownia Koźienice)
 (-) price formulas contained in long-term contracts were the reason why the price of Bogdanka coal in 2018 did not rise along with market prices (PSCMI). The increase in market prices of coal recorded in 2018 will be visible with a delay of one year, i.e. in 2019.

Inventories

(+) at the end of Q4 2018, the level of coal inventories amounted to 88,000 tonnes, which means an increase by 64,000 tonnes compared to the level as at 31 December 2017
 (+) the level of coal inventories presented at the end of Q4 2018 corresponds approximately to 3 days of commercial coal production (on the basis of average daily production for 12 months)
 (+) relatively low level of inventories of coal is a result of the achieved coal production and coal sales
 (+) the level of inventories allows the mine to operate safely in the event of problems with coal removal.

Structure of commercial coal production

(+) higher share of the production of fine coal sold to industrial customers
 (-) lower share of nut coal and pea coal in the production structure (assortment for individual customers) – in relation to the Regulation of the Minister of Energy of 27 September 2018 on the quality requirements for solid fuels, the Company is obliged to provide customers with a certificate of coal quality, which involves higher costs and lower profitability. This led to reducing sales to retail customers.



Revenue and key customers of the LW Bogdanka Group

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2017	Q4 2018	Change	Change %	2017	2018	Change	Change %
Sale of coal	457,198	407,942	-49,256	-10.8%	1,725,221	1,707,797	-17,424	-1.0%
Other activities	12,456	8,201	-4,255	-34.2%	41,807	30,099	-11,708	-28.0%
Sale of goods and materials	3,535	4,891	1,356	38.4%	13,293	18,775	5,482	41.2%
Total	473,189	421,034	-52,155	-11.0%	1,780,321	1,756,671	-23,650	-1.3%

Structure of revenue

[%]	Q4 2017	Q4 2018	2017	2018
Sale of coal	96.6%	96.9%	96.9%	97.2%
Other activities	2.6%	1.9%	2.4%	1.7%
Sale of goods and materials	0.8%	1.2%	0.7%	1.1%
Total	100.0%	100.0%	100.0%	100.0%

Geographical structure of revenue

[PLN '000]	Q4 2017	Structure	Q4 2018	Structure	2017	Structure	2018	Structure
Domestic sales	472,606	99.9%	421,010	100.0%	1,754,757	98.6%	1,756,538	100.0%
Foreign sales	583	0.1%	24	0.0%	25,564	1.4%	133	0.0%
Total	473,189	100.0%	421,034	100.0%	1,780,321	100.0%	1,756,671	100.0%

Geographical structure of revenue

The activities of the Group are primarily concentrated in Poland. In Q4 2018 and in the whole 2018 the exports of goods and products included primarily sale of coal. In 2018 the share of exports in the total revenue was 0.01% (PLN 133,000), while in 2017 the figure was 1.4% (PLN 25,564,000).

Revenue

(-) in Q4 2018 the revenue amounted to PLN 421,034,000, which represents a decrease by 11.0% compared to Q4 2017

(-) in the whole 2018 the revenue amounted to PLN 1,756,671,000 compared to PLN 1,780,321,000 in 2017, which means a drop in revenue by 1.3% y/y

The main source of revenue 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 approx. 97% of the LW Bogdanka Group's revenue.

Revenue on other operations

In Q4 2018 revenue on other operations (which includes revenue of subsidiaries) were PLN 8,201,000 (1.9% of total revenue), compared to PLN 12,456,000 (2.6% of revenue) in the analogous period of 2017 (down by 35.0% y/y). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the Issuer for the benefit of some customers
- revenue generated by Łęczynska Energetyka from the sale of heat energy to third parties
- revenue on industrial services provided to companies performing works contracted by the Parent
- revenue on lease of non-current assets.

In the whole 2018 revenue on other operations was PLN 30,099,000 compared to PLN 41,807,000 for the previous year.

As in Q4, the decrease in revenue in that group is attributable to: lower revenue on coal transport services provided by the Parent for the benefit of some customers,

- lower income on other operations,
- in accordance with IFRS 15 "Revenue from Contracts with Customers", the revenue on coal transport fee disclosed so far under this item was disclosed net of costs incurred (the amount of revenue was reduced by costs of approx. PLN 10.7 million). In the previous year the revenue on coal transport fee was disclosed separately (change without impact on EBIT and EBITDA).

Higher value of revenue is a consequence of higher scrap sales (i.e. lining recovered from closing galleries, which cannot be regenerated and reused).

Key customers

More than 90% of coal sales (in terms of value) in 2018 was effected between LW Bogdanka S.A. and Enea Wytwarzanie sp. z o.o., Enea Elektrownia Połaniec S.A., ENERGA Elektrownie Ostrołęka S.A., and Grupa Azoty Zakłady Azotowe Puławy S.A. and PGE Paliwa sp. z o.o. In 2017 the share of the above customers was similar.

Key customers by share in revenue:

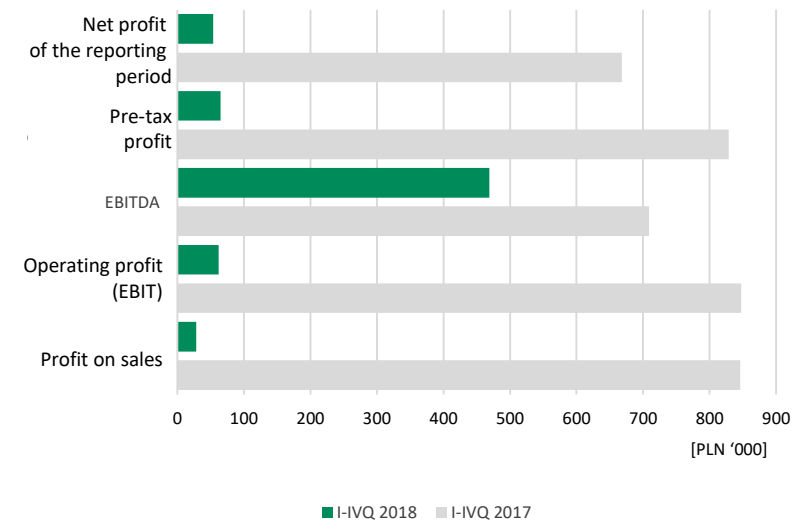
- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 62% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 23% share in the revenue



Financial highlights of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Revenue	473,189	421,034	-11.0%	1,780,321	1,756,671	-1.3%
Costs of products, goods and materials sold, selling costs and administrative expenses	-181,531	454,265	-350.2%	934,179	1,728,459	85.0%
Profit/(loss) on sales	654,720	-33,231	-105.1%	846,142	28,212	-96.7%
Gross sales margin	138.4%	-7.9%	-146.3 p.p.	47.5%	1.6%	-45.9 p.p.
Other income	2,961	3,796	28.2%	5,104	34,621	578.3%
Other costs	601	42	-93.0%	1,161	1,118	-3.7%
Net operating profit/(loss)	657,080	-29,477	-104.5%	850,085	61,715	-92.7%
Other profits/(losses) - net	-1,696	-1,109	-34.6%	-2,815	312	-111.1%
Net operating profit/(loss) (EBIT)	655,384	-30,586	-104.7%	847,270	62,027	-92.7%
EBIT margin	138.5%	-7.3%	-145.8 p.p.	47.6%	3.5%	-44.1 p.p.
EBITDA	256,405	69,746	-72.8%	708,944	469,191	-33.8%
EBITDA margin	54.2%	16.6%	-37.6 p.p.	39.8%	26.7%	-13.1 p.p.
Finance income	1,606	2,691	67.6%	7,253	14,542	100.5%
Finance costs	8,046	52	-99.4%	25,762	11,649	-54.8%
Profit/(loss) before taxation	648,944	-27,947	-104.3%	828,761	64,920	-92.2%
Pre-tax profit margin	137.1%	-6.6%	-143.7 p.p.	46.6%	3.7%	-42.9 p.p.
Income tax	124,674	-5,730	-104.6%	160,836	11,124	-93.1%
Net profit/(loss) for the financial year	524,270	-22,217	-104.2%	667,925	53,796	-91.9%
Net sales margin	110.8%	-5.3%	-116.1 p.p.	37.5%	3.1%	-34.4 p.p.





Financial highlights LW Bogdanka Group

Revenue

The value of revenue for the Q4 2018 went down by 11.0% compared to the same period of the previous year and amounted to PLN 421,034,000. In the whole 2018 the Group generated revenue in the amount of PLN 1,756,671,000 as compared to PLN 1,780,321,000 in the same period of 2017 (down by 1.3%).

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

In Q4 2018 the costs of products, goods and materials sold plus selling costs and administrative expenses amounted to PLN 454,265,000 and were higher by PLN 635,796,000 compared by the same period of the previous year when they showed a negative figure of PLN 181,531,000, which was mainly a result of one-off events, i.e. a reversal of an impairment loss made by the Parent in 2017 of PLN 495,982,000 and a release of a coal allowance provision of PLN 114,931,000. In 2018 the cost of products, goods and materials sold as well as selling costs and administrative expenses increased from PLN 934,179,000 to PLN 1,728,459,000 (for a reason analogous to that observed in Q4 2017).

Profit on sales

In Q4 2018 loss on sales amounted to PLN 33,231,000, while in the same period of 2017 profit on sales was recorded and amounted to PLN 654,720,000. The Group closed 2018 with a profit on sales in the amount of PLN 28,212,000, versus PLN 846,142,000 in 2017.

Other income

In Q4 2018 other income amounted to PLN 3,796,000 compared to PLN 2,961,000 a year before (of which a dominant item was the release of impairment losses). The dominant item in the value for 2018 (PLN 34,621,000) is the settlement of the Parent with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras (positive impact on the result of PLN 28,666,000) and the settlement with Wonam (PLN +2,499,000), while in 2017 the dominant item was the release of impairment losses (PLN 2,054,000). Both in 2017 and in 2018 the LW Bogdanka Group received approx. PLN 2,000,000 of damages.

Other costs and net losses

Other costs in 2017 amounted to PLN 1,161,000 while in 2018 the figure was PLN 1,118,000 – a dominant item in both periods were damages paid. Other net losses in Q4 2018 amounted to PLN 1,109,000 compared to PLN 1,696,000 in Q4 2017 – which means their decrease by PLN 587,000. Other net profit in 2018 amounted to PLN 312,000 compared to other net loss in 2017 of PLN 2,815,000. In 2017 a dominant item was the impairment loss of construction in progress (PLN 1,284,000).

EBIT

Operating result in Q4 2018 was negative and amounted to PLN -30,586,000. EBIT margin in the fourth quarter of 2018 was -7.3%, i.e. it was lower by 145.8 p.p. than in the fourth quarter of the previous year. EBIT margin for the whole 2018 was lower by 44.1 p.p. compared to 2017 and accounted for 3.5% (the 2017 profit/loss includes a positive impact of the released impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000 at the Parent).

EBITDA

EBITDA in Q4 2018 decreased by 72.8% compared to Q4 2017 and amounted to PLN 69,746,000. EBITDA margin in Q4 2018 was 16.6% and was lower than in the same analysed period of 2017. In 2018 the Group achieved an EBITDA margin of 26.7%, i.e. 13.1 p.p. lower than in 2017 (EBITDA amount decreased by 33.8% in the period under analysis). In 2018, EBITDA amounted to PLN 469,191,000, compared to PLN 708,944,000 in 2017.

Finance income

Finance income in Q4 2018 amounted to PLN 2,691,000 (+67.6%). In the whole 2018 finance income was PLN 14,542,000 (+100.5% y/y).

The increase in finance income in the whole 2018 is primarily attributable to:

- a release of the provision for interest on income tax (PLN +3,578,000),
- a release of the provision for potential interest on liabilities towards the Mostostal Warszawa S.A. and Acciona Infraestructuras Consortium (PLN 2,753,000).

In both analysed periods the Group achieved a similar value of interest income on short-term bank deposits.

Finance costs

In Q4 2018 finance costs amounted to PLN 52,000 and were lower by 99.4% than the costs in the same period of 2017. Finance costs for the whole 2018 amounted to PLN 11,649,000 compared to PLN 25,762,000 in 2017 (decrease by 54.8%). As at 31 December 2018 the total debt of the Group amounted to PLN 17,142,000 (compared to the Group's debt as at 31 December 2017 of PLN 322,119,000); additionally, in 2017, a provision and impairment losses of interest were created (amounting to PLN 7,617,000 compared to PLN 978,000 in 2018).

Profit before taxation

In Q4 2018 the Group recorded a pre-tax loss of PLN -27,947,000 compared to Q4 2017 profit of PLN 648,944,000.

The pre-tax profit for the whole 2018 was PLN 64,920,000 compared to PLN 828,761,000 for the same period of 2017 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000 at the Parent).

Net profit for the financial year

In Q4 2018 the Group recorded a net loss of PLN -22,217,000 compared to the profit of PLN 524,270,000 in Q4 2017 (the impact on the 2017 net profit/loss of the released impairment loss amounts to PLN 401,745,000). The Group's net profit for four quarters of 2018 was PLN 53,796,000 compared to PLN 667,925,000 for the same period of 2016 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000 at the Parent).



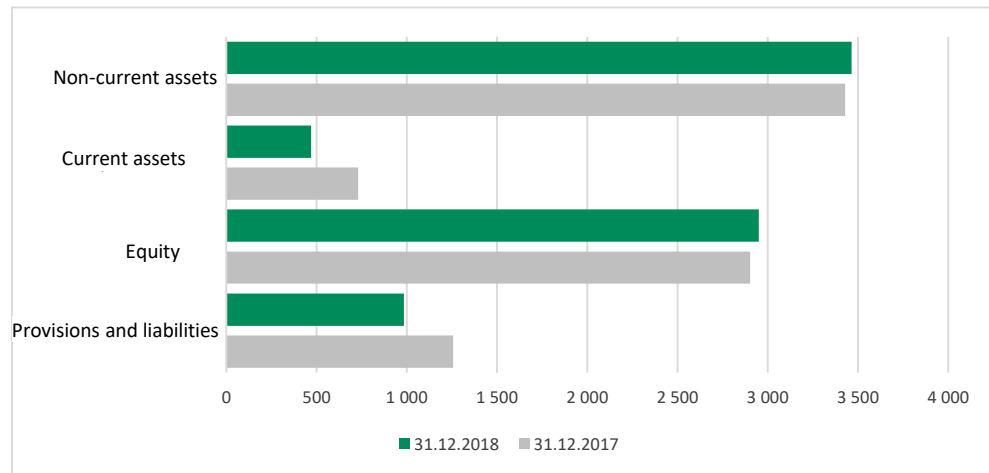
Balance sheet of the LW Bogdanka Group

Balance sheet

[PLN '000]	31 Dec. 2017	31 Dec. 2018	Change
Total assets	4,158,872	3,933,351	-5.4%
Return on Assets (ROA)*	16.8%	1.3%	-15.5 p.p.
Non-current assets	3,428,805	3,463,822	1.0%
Current assets	730,067	469,529	-35.7%
Equity	2,901,527	2,950,116	1.7%
Return on Equity (ROE)*	25.7%	1.8%	-23.9 p.p.
Provisions and liabilities	1,257,345	983,235	-21.8%

- the calculations include net result for the last four quarters and an average level of assets and equity (as at 31 December 2018 + as at 31 December 2017)/2

Analysis of the consolidated statement of financial position



Assets

The balance-sheet total as at 31 December 2018 compared to the value as at 31 December 2017 went down by PLN 225,521,000 and amounted to PLN 3,933,351,000, with non-current assets going up by PLN 35,017,000 and current assets going down by PLN 260,538,000. Within current assets, the value of trade and other receivables went down by 2.7%, overpaid income tax went down by 49.6% and cash and cash equivalents - by 60.7%. As at 31 December 2018 the ROA figure was 1.3%, while as at the end of 2017 it was 16.8% (this high level of profitability in 2017 is attributable to the impact of one-off events described above).

Equity and liabilities

The equity went up by 1.7%, It was solely an effect of the comprehensive income generated for 2018. Provisions and liabilities went down by 21.8% compared to the value as at 31 December 2017, with current liabilities going down by 40.0% (main drop in financial liabilities related to bond issue - redemption of bonds), while non-current liabilities went up by 4.7% (including growth in liabilities on employee benefits and liabilities on account of the deferred income tax as well as provisions for other liabilities and charges).

At 31 December 2018 a decrease in ROE was recorded (by 23.9 p.p.) compared to the end of 2017. The value of the ratio as at 31 December 2018 was 1.8% compared to 25.7% as at 31 December 2017.



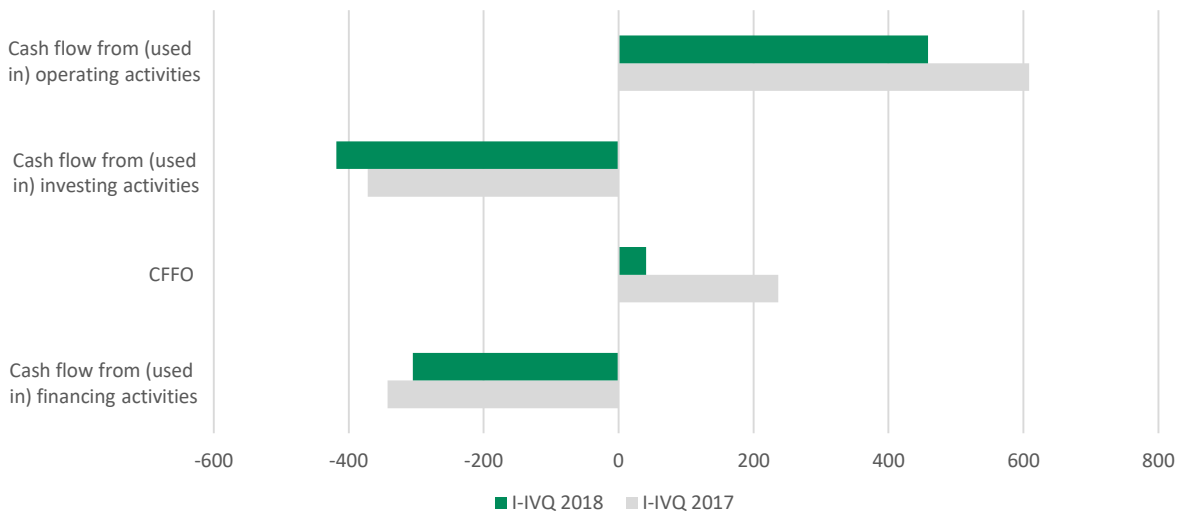


Cash flow LW Bogdanka Group

Cash flow

[PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Cash flow from (used in) operating activities	259,166	98,635	-61.9%	608,517	458,874	-24.6%
Cash flow from (used in) investing activities	-109,589	-40,756	-62.8%	-372,052	-418,232	12.4%
CFFO*	149,577	57,879	-61.3%	236,465	40,642	-82.8%
Cash flow from (used in) financing activities	-1,765	-150,942	8452.0%	-342,643	-304,777	-11.1%

*total cash flow from operating and investing activity



In Q4 2018 the Group generated net cash flow from operating activities lower by 61.9% than in Q4 2017 – in 2018 it amounted to PLN 98,635,000 compared to PLN 259,166,000 a year before. During the whole 2018, the LW Bogdanka Group generated cash flow from operating activities in the amount of PLN 458,874,000 (-24.6% y/y).

The drop by PLN 149,643,000 in cash flow from operating activities (PLN 458,874,000 in 2018 compared to PLN 608,517,000 in 2017) is primarily related to the decrease in the pre-tax profit/loss. The pre-tax profit/loss in 2017 amounted to PLN 828,761,000 (net of significant non-cash one-off events of PLN 217,848,000), and in 2018 the figure was PLN 64,920,000, which represents a year-to-year change of PLN 152,928,000.

Cash flow from investing activities decreased its value (in absolute values) in Q4 2018 by 62.8% (to PLN -40,756,000) relative to the analogous period of 2017. In the whole 2018 cash flow from investing activity was higher by 12.4% from cash flow from the analogous period last year.

In Q4 2018, the Group recorded negative cash flow from financing activities of PLN 150,942,000 (bonds worth PLN 150,000,000 were redeemed, loans of PLN 759,000 were repaid and interest of PLN 183,000 was paid). In the whole 2018, the Group recorded negative cash flow from financing activities of PLN 304,777,000 (bonds worth PLN 300,000,000 were redeemed, interest of PLN 1,741,000 was paid and loans and borrowings worth PLN 3,036,000 were repaid).



Debt and liquidity ratios LW Bogdanka Group

Cash flow

[PLN '000]	31 Dec. 2017	31 Dec. 2018	Change
Overall debt ratio	30.2%	25.0%	-5.2 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.68	0.39	-42.6%
Net debt ratio/EBITDA*	-0.16	-0.33	106.3%
Debt to equity ratio	43.3%	33.3%	-10 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	96.2%	97.1%	0.9 p.p.
Current debt ratio (current liabilities/equity and liabilities)	17.9%	11.4%	-6.5 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	12.3%	13.6%	1.3 p.p.

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

	31 Dec. 2017	31 Dec. 2018	Change
Current liquidity ratio	1.11	1.28	15.3%
Quick liquidity ratio	1.01	1.05	4.0%

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

Overall debt ratio

The overall debt ratio as at 31 December 2018 went down by 5.2 p.p. compared to 31 December 2017 and reached 25.0% - the share of borrowed capital in the overall financing sources of the Group decreased (bonds worth PLN 300,000,000 were redeemed by the Parent, which was key for the reduction of the ratio).

The level of the Group's debts as at 31 December 2018 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. The Group's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q4 2018 dropped by 42.6% to 0.39. When comparing data as at 31 December 2018 to data as at 31 December 2017, an increase was recorded in debt and EBITDA (cumulatively for the last four quarters).

Ratio net debt/EBITDA

The ratio describing the relation of net debt (the total of current and non-current liabilities less cash and equivalents) to EBITDA dropped from -0.16 as at 31 December 2017 to -0.33 as at 31 December 2018. The value of net debt dropped by ca. PLN 40 million and amounted to PLN -154 million with EBITDA going down by ca. PLN 240 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2018 decreased in relation to 31 December 2017 by 10.0 p.p. and was 33.3% - liabilities dropped by ca. PLN 274 million along with an increase in equity by ca. PLN 49 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 97.1% (as at 31 December 2018) compared to 96.2% (as at 31 December 2017) - in the analysed period the value of non-current assets increased by approx. PLN 35 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 62 million.



Turnover ratios at the LW Bogdanka Group

Turnover ratios

			31 Dec. 2017	31 Dec. 2018	Change
	[PLN '000]				
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times$	days in the period	28	17	-39.3%
2. Debtors collection rate*	$\frac{\text{Average receivables}}{\text{revenue}} \times$	days in the period	46	43	-6.5%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times$	days in the period	134	74	-44.8%
4. Operating cycle	1+2		74	60	-18.9%
5. Cash conversion cycle	4-3		-60	-14	-76.7%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover

The inventory turnover as at 31 December 2018 dropped to 17 days, compared 31 December 2017. Disposal of inventories takes on average 11 days less.

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 43 days (as at 31 December 2018), compared to 46 days (as at 31 December 2017). In the period under analysis, average receivables dropped by approx. PLN 20 million, with the revenue going down by approx. PLN 24 million.

Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got shorter by 60 days to ca. 74 days, compared to the end of 2017. In the period under analysis, the Group had a higher level of current trade creditors (by approx. PLN 7 million) with significantly higher costs of products, goods and materials sold (by ca. PLN 725 million due to the reversal of the impairment loss of the Group's assets in 2017).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period shortened to 60 days. On average after 60 days, the Group's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2018 was 14 days. The negative value of the cash conversion cycle means that the Group uses trade credit (financing with the non-interest-bearing borrowed capital).



Provisions of the LW Bogdanka Group

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2017	As at 31 Dec. 2018	Change 31.12.2018/ 31 Dec. 2017
Employee provisions	157,021	165,156	5.2%
Provision for real property tax	42,353	41,431	-2.2%
Provision for the mine closure costs and land reclamation	114,448	124,207	8.5%
Mining damage	4,434	3,184	-28.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	21,340	22,658	6.2%
Other	17,643	11,883	-32.6%
Total	357,239	368,519	3.2%

The total provisions as at 31 December 2018 amounted to PLN 368,519,000, which means an increase by 3.2% compared to the value as at 31 December 2017.

Change in provisions

[PLN '000]	Change Q4 2017	Change Q4 2018	Change Q4 2018/ Q4 2017	Change in 2017	Change in 2018	Change 2018/ 2017
Employee provisions	-141,539	6,657	-	-109,960	8,135	-
Provision for real property tax	2,414	-7,494	-	9,897	-922	-
Provision for the mine closure costs and land reclamation	-2,588	-698	-73.0%	-2,975	9,759	-
Mining damage	822	-266	-	-6	-1,250	20733.3%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	325	335	3.1%	1,298	1,318	1.5%
Other	4,429	-270	-	3,729	-5,760	-
Total	-136,137	-1,736	-98.7%	-98,017	11,280	-

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

[PLN '000]	Change of provisions in 2018	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including: Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	8,135	21,550	3,898	-	6,428	-23,741
Provision for real property tax	-922	5,986	2,937	-	-	-9,845
Provision for the mine closure costs and land reclamation	9,759	3,614	3,731	2,414	-	-
Mining damage	-1,250	289	-	-	-	-1,539
Provision for Social Insurance Institution (ZUS) claim for accident contributions	1,318	-	1,318	-	-	-
Other	-5,760	-3,566	293	-	-	-2,487
Total	11,280	27,873	12,177	2,414	6,428	-37,612

[PLN '000]	Change in provisions in Q4 2018	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including: Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	6,657	6,786	1,040	-	576	-1,745
Provision for real property tax	-7,494	1,551	800	-	-	-9,845
Provision for the mine closure costs and land reclamation	-698	2,571	1,153	-4,422	-	-
Mining damage	-266	289	-	-	-	-555
Provision for Social Insurance Institution (ZUS) claim for accident contributions	335	-	335	-	-	-
Other	-270	-235	74	-	-	-109
Total	-1,736	10,962	3,402	-4,422	576	-12,254



Revenue and key customers of LW Bogdanka S.A.

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2017	Q4 2018	Change	Change %	2017	2018	Change	Change %
Sale of coal	459,500	410,821	-48,679	-10.6%	1,731,604	1,715,416	-16,188	-0.9%
Other activities	9,530	4,858	-4,672	-49.0%	32,457	20,705	-11,752	-36.2%
Sale of goods and materials	3,527	4,956	1,429	40.5%	13,212	18,775	5,563	42.1%
Total	472,557	420,635	-51,922	-11.0%	1,777,273	1,754,896	-22,377	-1.3%

Structure of revenue

[%]	Q4 2017	Q4 2018	2017	2018
Sale of coal	97.2%	97.7%	97.4%	97.7%
Other activities	2.0%	1.1%	1.8%	1.2%
Sale of goods and materials	0.8%	1.2%	0.8%	1.1%
Total	100.0%	100.0%	100.0%	100.0%

Geographical structure of revenue

[PLN '000]	Q4 2017	Structure	Q4 2018	Structure	2017	Structure	2018	Structure
Domestic sales	471,974	99.9%	1,754,763	100.0%	1,751,709	98.6%	1,754,763	100.0%
Foreign sales	583	0.1%	133	0.0%	25,564	1.4%	133	0.00%
Total	472,557	100.0%	1,754,896	100.0%	1,777,273	100.0%	1,754,896	100.0%

Geographical structure of revenue

The Company operates primarily in Poland. In Q4 2018 and in the whole 2018 the exports of goods and products included primarily sale of coal. In 2018 the share of exports in the total revenue was 0.01% (PLN 133,000), while in 2017 the figure was 1.4% (PLN 25,564,000).

Revenue

(-) in Q4 2018 the revenue amounted to PLN 420,635,000, which represents a decrease by 11.0% compared to Q4 2017

(-) in the whole 2018 the revenue amounted to PLN 1,754,896,000 compared to PLN 1,777,273,000 in 2017, which means a drop in revenue by 1.3% y/y

(+) the main source of revenue at LW Bogdanka S.A. is the production and sale of thermal coal. In each of the compared reporting periods this activity generates more than 97% of the LW Bogdanka S.A.'s revenue.

Revenue on other operations

In Q4 2018 revenue on other operations were PLN 4,858,000 compared to PLN 9,530,000 in the analogous period of 2017 (down by 49.0% y/y). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by LW Bogdanka S.A. for the benefit of some customers,
- revenue on industrial services provided to companies performing works contracted by the Company
- revenue on lease of non-current assets.

In the whole 2018 revenue on other operations was PLN 20,705,000 compared to PLN 32,457,000 for the previous year. As in Q4, the decrease in revenue in that group is attributable to: lower revenue on coal transport services provided by the Parent for the benefit of some customers,

- lower revenue on other Company's operations,
- as a result of application, as from 1 January 2018, of the new standard, IFRS 15 "Revenue from Contracts with Customers", the revenue on coal transport fee disclosed so far under this item was disclosed net of costs incurred (the amount of revenue was reduced by costs of approx. PLN 10.7 million). In the previous year the revenue on coal transport fee was disclosed separately (change without impact on EBIT and EBITDA).

Higher value of revenue is a consequence of higher scrap sales (i.e. lining recovered from closing galleries, which cannot be regenerated and reused).

Key customers

More than 90% of coal sales (in terms of value) in 2018 was effected between LW Bogdanka S.A. and Enea Wytwarzanie sp. z o.o., Enea Elektrownia Połaniec S.A., ENERGA Elektrownie Ostrołęka S.A., and Grupa Azoty Zakłady Azotowe Puławy S.A. and PGE Paliwa sp. z o.o. In 2017 the share of the above customers was similar.

Key customers by share in revenue:

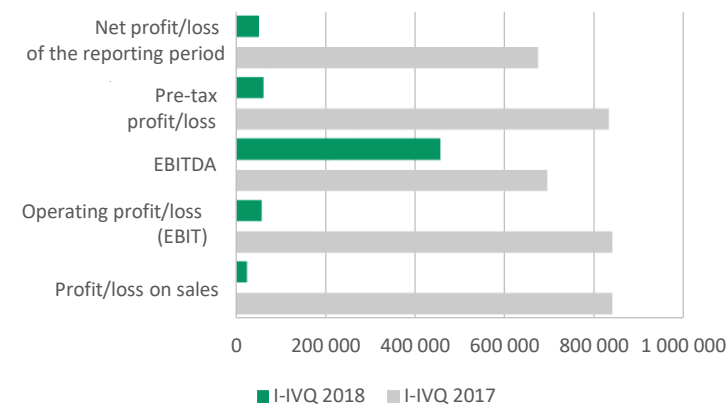
- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 63% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 23% share in the revenue



Financial highlights LW Bogdanka S.A.

Analysis of the income statement

[PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Revenue	472,557	420,635	-11.0%	1,777,273	1,754,896	-1.3%
Costs of products, goods and materials sold, selling costs and administrative expenses	-183,435	454,197	-347.6%	936,523	1,730,817	84.8%
Profit/(loss) on sales	655,992	-33,562	-105.1%	840,750	24,079	-97.1%
Gross sales margin	138.8%	-8.0%	-146.8 p.p.	47.3%	1.4%	-45.9 p.p.
Other income	2,855	3,513	23.0%	4,088	33,869	728.5%
Other costs	561	33	-94.1%	1,115	1,048	-6.0%
Net operating profit/(loss)	658,286	-30,082	-104.6%	843,723	56,900	-93.3%
Other profits/(losses) - net	-1,696	-1,110	-34.6%	-2,815	318	-111.3%
Net operating profit/(loss) (EBIT)	656,590	-31,192	-104.8%	840,908	57,218	-93.2%
EBIT margin	138.9%	-7.4%	-146.3 p.p.	47.3%	3.3%	-44 p.p.
EBITDA	255,570	66,952	-73.8%	694,207	455,396	-34.4%
EBITDA margin	54.1%	15.9%	-38.2 p.p.	39.1%	26.0%	-13.1 p.p.
Finance income	2,784	2,638	-5.2%	16,725	15,338	-8.3%
Finance costs	7,771	-197	-102.5%	24,829	10,830	-56.4%
Profit/(loss) before taxation	651,603	-28,357	-104.4%	832,804	61,726	-92.6%
Pre-tax profit margin	137.9%	-6.7%	-144.6 p.p.	46.9%	3.5%	-43.4 p.p.
Income tax	124,857	-5,825	-104.7%	159,523	10,129	-93.7%
Net profit/(loss) for the financial year	526,746	-22,532	-104.3%	673,281	51,597	-92.3%
Net sales margin	111.5%	-5.4%	-116.9 p.p.	37.9%	2.9%	-35 p.p.





Financial highlights LW Bogdanka S.A.

Revenue

The value of revenue for the Q4 2018 went down by 11.0% compared to the same period of the previous year and amounted to PLN 420,635,000. In the whole 2018 the Company generated revenue at a level of PLN 1,754,896,000 compared to PLN 1,777,273,000 in 2017 (down by 1.3%).

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

In Q4 2018 the costs of products, goods and material sold plus selling costs and administrative expenses amounted to PLN 454,197,000 and were higher by PLN 637,632,000 compared by the same period of the previous year when they showed a negative figure of PLN 183,435,000, which was mainly a result of one-off events, i.e. a reversal of an impairment loss made by the Company in 2017 of PLN 495,982,000 and a release of a coal allowance provision of PLN 114,931,000. In 2018 the cost of products, goods and materials sold as well as selling costs and administrative expenses increased from PLN 936,523,000 to PLN 1,730,817,000 (for a reason analogous to that observed in Q4 2017).

Profit on sales

In Q4 2018 loss on sales amounted to PLN -33,562,000, while in the same period of 2017 the Company generated profit on sales of PLN 655,992,000. The Company closed 2018 with a profit on sales in the amount of PLN 24,079,000, versus PLN 840,750,000 in 2017.

Other income

In Q4 2018 other income amounted to PLN 3,513,000 compared to PLN 2,855,000 a year before (of which a dominant item was the release of impairment losses). The dominant item in the value for 2018 (PLN 33,869,000) is the settlement of the Company with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras (positive impact on the result of PLN 28,666,000) and the settlement with Wonam (PLN 2,499,000), while in 2017 the dominant item was the release of impairment losses (PLN 2,054,000). Both in 2017 and in 2018 LW Bogdanka received approx. PLN 2,000,000 of damages.

Other costs and net losses

Other costs in 2017 amounted to PLN 1,048,000 while in 2018 the figure was PLN 1,115,000 – a dominant item in both periods were damages paid. Other net losses in Q4 2018 amounted to PLN 1,110,000 compared to PLN 1,696,000 in Q4 2017 – which means their decrease by PLN 586,000. Other net profit in 2018 amounted to PLN 318,000 compared to other net losses in 2017 of PLN 2,815,000. In 2017 a dominant item was the impairment loss of construction in progress (PLN 1,284,000).

EBIT

Operating result in Q4 2018 was negative and amounted to PLN -31,192,000. EBIT margin in the fourth quarter of 2018 was -7.4%, i.e. it was lower by 146.3 p.p. than in the fourth quarter of the previous year. EBIT margin for the whole 2018 was lower by 44 p.p. compared to the same period of 2017, and accounted for 3.3% (the 2017 profit/loss includes a positive impact of the released impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).

EBITDA

EBITDA in Q4 2018 decreased by 73.8% compared to Q4 2017 and amounted to PLN 66,952,000. EBITDA margin in Q4 2018 was 15.9% and was lower than in the same analysed period of 2017.

In 2018, the Company's EBITDA margin amounted to 26.0%, i.e. less by 13.1 p.p. compared to the same period of 2017 (EBITDA dropped in the analysed period by 34.4%). In 2018, EBITDA amounted to PLN 455,396,000, compared to PLN 694,207,000 in 2017.

Finance income

Finance income in Q4 2018 amounted to PLN 2,638,000 (-5.2% y/y). In the whole 2018 finance income was PLN 15,338,000 (+8.3% y/y). In both analysed periods LW Bogdanka S.A. achieved a similar value of interest income on short-term bank deposits.

Finance costs

In Q4 2018 finance costs amounted to PLN -197,000 and were lower by 102.5% than the costs in the same period of 2017. Finance costs for the whole 2018 amounted to PLN 10,830,000 compared to PLN 24,829,000 in 2017 (decrease by 56.4%). As at 31 December 2018 the Company had no interest-bearing debt; additionally, in 2017, a provision and impairment losses of interest were created (amounting to PLN 7,617,000 compared to PLN 978,000 in 2018).

Profit/(loss) before taxation

In Q4 2018 the Company generated pre-tax loss of PLN 28,357,000 compared to pre-tax profit of PLN 651,603 in Q4 2017.

The pre-tax profit for the whole 2018 was PLN 61,726,000 compared to PLN 832,804,000 for the same period of 2017 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance

provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).

Net profit for the financial year

In Q4 2018 the Company generated net loss of PLN 22,532,000 compared to profit of PLN 526,746,000 in Q4 2017 (the impact on the 2017 net profit/loss of the released impairment loss amounts to PLN 401,745,000). The Company's net profit for four quarters of 2018 was PLN 51,597,000 compared to PLN 673,281,000 for the same period of 2017 (the 2017 profit/loss includes a positive impact of the reversed impairment loss in the gross amount of PLN 495,982,000 and the released coal allowance provision for present and future pensioners and retirees in the gross amount of PLN 114,931,000).



Balance sheet of LW Bogdanka S.A.

Balance sheet

[PLN '000]	31 Dec. 2017	31 Dec. 2018	Change
Total assets	4,116,044	3,893,715	-5.4%
Return on Assets (ROA)*	17.5%	1.3%	-16.2 p.p.
Non-current assets	3,408,184	3,444,475	1.1%
Current assets	707,860	449,240	-36.5%
Equity	2,884,627	2,930,989	1.6%
Return on Equity (ROE)*	25.7%	1.8%	-23.9 p.p.
Provisions and liabilities	1,231,417	962,726	-21.8%

* the calculations include net result for the last four quarters and an average level of assets and equity (as at 31 December 2018 + as at 31 December 2017)/2

Assets

The balance-sheet total as at 31 December 2018 went down to PLN 3,893,715,000 (i.e. down by PLN 222,329,000) compared to the value as at 31 December 2017, with non-current assets going up by PLN 36,291,000 and current assets going down by PLN 258,620,000. In non-current assets, an increase was recorded in property, plant and equipment (+1.0%) as well as cash and cash equivalents (+5.3%).

As at 31 December 2018 the ROA figure was 1.3%. The reason for the high value of profitability in 2017 was the described above, reversed impairment loss on the property, plant and equipment and intangible assets and the released the provision for coal allowance for retirees.

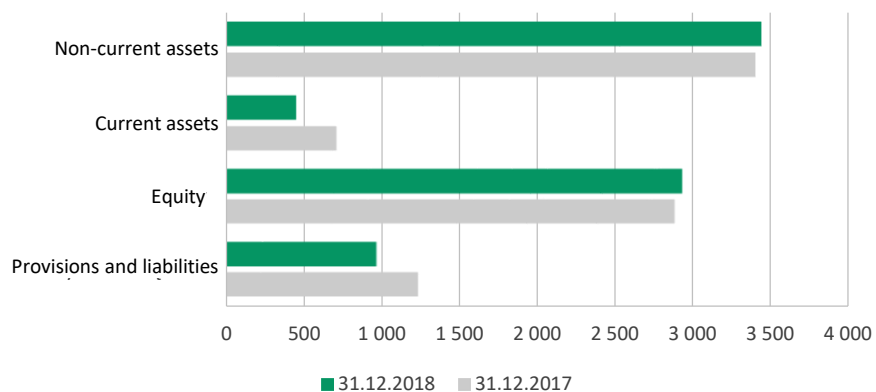
Equity and liabilities

The equity went up by 1.6%. It was solely an effect of the disclosed comprehensive income for 2018.

Provisions and liabilities went down by 21.8% compared to the value as at 31 December 2017, with current liabilities going down by 40.0% (drop in financial liabilities related to bond issue), while non-current liabilities went up by 5.5% (including liabilities on employee benefits, provisions for other liabilities and charges, and liabilities on account of the deferred income tax).

At 31 December 2018 a decrease in ROE was recorded (by 23.9 p.p.) compared to the end of 2017. The value of the ratio as at 31 December 2018 was 1.8% compared to 25.7% as at 31 December 2017.

Analysis of the separate statement of financial position





Cash flow LW Bogdanka S.A.

Cash flow

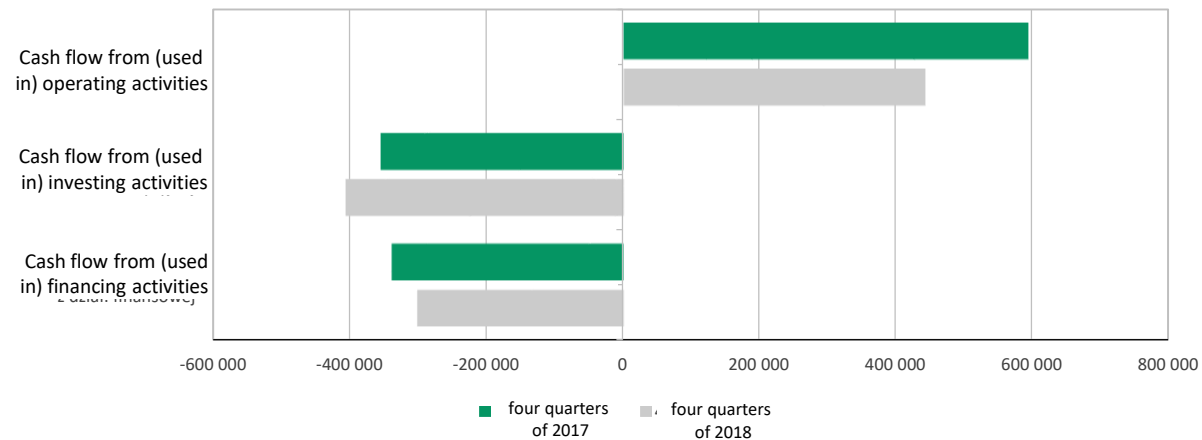
[PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Cash flow from (used in) operating activities	258,554	96,125	-62.8%	595,773	444,025	-25.5%
Cash flow from (used in) investing activities	-103,548	-37,021	-64.2%	-354,121	-405,362	14.5%
CFFO*	155,006	59,104	-61.9%	241,652	38,663	-84.0%
Cash flow from (used in) financing activities	-792	-150,001	18,839.5%	-338,257	-300,968	-11.0%

*total cash flow from operating and investing activity

In Q4 2018 the Company generated net cash flow from operating activities lower by 62.8% than in Q4 2017 – in Q4 2018 it amounted to PLN 96,125,000 compared to PLN 258,554,000 a year before. In 2018, the Company generated cash flow from operating activities in the amount of PLN 444,025,000 (-25.5% y/y).

Cash flow from investing activities decreased its value (in absolute values) in Q4 2018 by 64.2% (to PLN 37,021,000) relative to the analogous period of 2017. Cumulative for 12 months of 2018 cash flow from investing activity was higher by 14.5% from cash flow from the analogous period last year.

In Q4 2018, the Company recorded negative cash flow from financing activities of PLN 150,001,000 (bonds repaid). In the whole 2018, the Company generated negative cash flows from financing activities of PLN 300,968,000 (bonds worth PLN 300,000,000 were redeemed and interest of PLN 968,000 was paid).





Debt and liquidity ratios

LW Bogdanka S.A.

Cash flow

[PLN '000]	31 Dec. 2017	31 Dec. 2018	Change
Overall debt ratio	29.9%	24.7%	-5.2 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.66	0.45	-31.8%
Net debt ratio/EBITDA*	-0.17	-0.43	152.9%
Debt to equity ratio	42.7%	32.8%	-9.9 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	95.7%	96.6%	0.9 p.p.
Current debt ratio (current liabilities/equity and liabilities)	17.9%	11.4%	-6.5 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	12.0%	13.3%	1.3 p.p.

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

	31 Dec. 2017	31 Dec. 2018	Change
Current liquidity ratio	1.08	1.23	13.9%
Quick liquidity ratio	0.99	1.01	2.0%

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

Overall debt ratio

The overall debt ratio as at 31 December 2018 went down by 5.2 p.p. compared to 31 December 2017 and reached 24.7% - the share of borrowed capital in the overall financing sources of the Company decreased (2017 bonds worth PLN 300,000,000 were redeemed). The level of the Company's debts as at 31 December 2018 did not pose any risk to the Company's operation and its ability to settle liabilities in a timely manner. The Company's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q4 2018 dropped by 31.8% to 0.45. When comparing data as at 31 December 2018 to data as at 31 December 2017, a significant drop was recorded in debt (redeemed bonds of PLN 300,000,000) and a drop in EBITDA (cumulatively for the last four quarters).

Ratio net debt/EBITDA

The ratio describing the relation of net debt (the total of current and non-current liabilities less cash and equivalents) to EBITDA dropped from the level of -0.17 as at 31 December 2017 to -0.43 as at 31 December 2018. The value of net debt dropped by ca. PLN 39 million and amounted to PLN -155 million with EBITDA going down by ca. PLN 337 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2018 decreased in relation to 31 December 2017 by 9.9 p.p. and was 32.8% - liabilities dropped by ca. PLN 269 million along with an increase in equity by ca. PLN 46 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 96.6% (as at 31 December 2018) compared to 95.7% (as at 31 December 2017) - in the analysed period the value of non-current assets increased by approx. PLN 36 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 63 million.



Turnover ratios at LW Bogdanka S.A.

Turnover ratios		31 Dec. 2017	31 Dec. 2018	Change
[PLN '000]				
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	30	16	-46.7%
2. Debtors collection rate*	$\frac{\text{Average receivables}}{\text{revenue}} \times \text{days in the period}$	57	43	-24.6%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	134	74	-44.8%
4. Operating cycle	1+2	87	59	-32.2%
5. Cash conversion cycle	4-3	-47	-15	-68.1%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover

The inventory turnover as at 31 December 2018 dropped to 16 days, compared 31 December 2017. Disposal of inventories takes on average 14 days less.

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 43 days (as at 31 December 2018), compared to 57 days (as at 31 December 2017). The drop in the ratio's value is attributable to a lower average level of receivables with a lower average level of the revenue.

Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got shorter by 60 days to ca. 74 days, compared to the end of 2017. In the period under analysis, the Company had a higher level of current trade liabilities (by approx. PLN 6 million) with higher costs of products, goods and materials sold (due to the reversal of the impairment loss of the Group's assets).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period shortened to 59 days. On average after 59 days, the Company's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2018 was -15 days. The negative value of the cash conversion cycle means that the Company trade credit (financing with the non-interest-bearing borrowed capital).





Provisions in LW Bogdanka S.A.

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2017	As at 31 Dec. 2018	Change Q4 2018/31 Dec. 2017
Employee provisions	153,562	161,735	5.3%
Provision for real property tax	42,353	41,431	-2.2%
Provision for the mine closure costs and land reclamation	114,448	124,207	8.5%
Mining damage	4,434	3,184	-28.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	21,340	22,658	6.2%
Other	17,417	11,858	-31.9%
Total	353,554	365,073	3.3%

The total provisions as at 31 December 2018 amounted to PLN 365,073,000, which means an increase by 3.3% compared to the value as at 31 December 2017.

Change in provisions

[PLN '000]	Change Q4 2017	Change Q4 2018	Change in Q4 2018/Q4 2018	Change in 2017	Change in 2018	Change 2018/ 2017
Employee provisions	-140,501	7,774	-	-109,914	8,173	-
Provision for real property tax	2,414	-7,494	-	9,897	-922	-
Provision for the mine closure costs and land reclamation	-2,588	-698	73.0%	-2,975	9,759	-
Mining damage	822	-266	-	-6	-1,250	20733.3%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	325	335	3.1%	1,298	1,318	1.5%
Other	4,462	-238	-	3,754	-5,559	-
Total	-135,066	-587	99.6%	-97,946	11,519	-

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

[PLN '000]	Change of provisions in 2018	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including: Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	8,173	21,209	3,825	-	6,463	-23,324
Provision for real property tax	-922	5,986	2,937	-	-	-9,845
Provision for the mine closure costs and land reclamation	9,759	3,614	3,731	2,414	-	-
Mining damage	-1,250	289	-	-	-	-1,539
Provision for Social Insurance Institution (ZUS) claim for accident contributions	1,318	-	1,318	-	-	-
Other	-5,559	-3,641	293	-	-	-2,211
Total	11,519	27,457	12,104	2,414	6,463	-36,919

[PLN '000]	Change of provisions in Q4 2018	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Including: Change disclosed only in the balance sheet - increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	7,774	8,328	967	-	611	-2,132
Provision for real property tax	-7,494	1,551	800	-	-	-9,845
Provision for the mine closure costs and land reclamation	-698	2,571	1,153	-4,422	-	-
Mining damage	-266	289	-	-	-	-555
Provision for Social Insurance Institution (ZUS) claim for accident contributions	335	-	335	-	-	-
Other	-238	-274	74	-	-	-38
Total	-587	12,465	3,329	-4,422	611	-12,570



Costs in LW Bogdanka S.A.

Costs by type

[PLN '000]	Q4 2017	Q4 2018	Change	2017	2018	Change
Net production [in '000 tonnes]	2,338	2,187	-6.5%	9,050	9,007	-0.5%
Sales [in '000 tonnes]	2,453	2,155	-12.1%	9,151	8,943	-2.3%
Depreciation/amortisation	93,678	98,144	4.8%	347,997	398,178	14.4%
Materials and energy consumption	140,814	157,727	12.0%	494,927	572,379	15.6%
Outsourced services	118,058	135,604	14.9%	418,889	495,394	18.3%
Employee benefits	208,520	197,648	-5.2%	562,352	583,295	3.7%
Entertainment and advertising costs	1,355	1,811	33.7%	6,633	8,808	32.8%
Taxes, fees and charges	8,957	9,013	0.6%	38,183	39,695	4.0%
Other costs	1,101	1,167	6.0%	6,944	17,268	148.7%
Total costs by type	572,483	601,114	5.0%	1,875,925	2,115,017	12.7%
Cost of own work	-78,699	-92,071	17.0%	-284,243	-300,594	5.8%
Accruals and deferrals	-48,101	-45,522	-5.4%	6,978	1,346	-80.7%
Value of coal obtained from excavations	-18,533	-25,535	37.8%	-63,887	-113,225	77.2%
Provisions and other presentation adjustments between costs by type and by function	-627,279	17,257	-	-622,641	17,326	-
Total production cost	-200,129	455,243	-	912,132	1,719,870	88.6%
Change in inventory of products	13,167	-5,843	-	11,571	-7,675	-
Costs of goods and materials sold	3,527	4,797	36.0%	12,820	18,622	45.3%
Own cost of sales, including:	-183,435	454,197	-	936,523	1,730,817	84.8%
Costs of products, goods and materials sold	-160,632	415,681	-	861,576	1,585,719	84.0%
Selling costs	11,249	11,275	0.2%	41,999	44,010	4.8%
Administrative expenses	-34,052	27,241	-	32,948	101,088	206.8%

Q4 2018

In Q4 2018, LW Bogdanka S.A. incurred costs by type in the amount of PLN 601,114,000 (PLN +28,631,000 y/y), i.e. by 5.0% higher than in Q4 2017. The increase in costs recorded in Q4 2018 was primarily influenced by higher value of consumption of materials and energy, outsourced services and depreciation.

The value of depreciation went up by 4.8% (to PLN 98,144,000) – the value of depreciation of non-current assets in relation to the reversed (as at the end of 2017) impairment loss of non-current assets and intangible assets (PLN +4 million); with a slight increase in natural depreciation (PLN +0.6 million). Total cost of materials and energy consumption went up by 12.0% compared to Q4 2017, and totalled PLN 157,727,000. In the period under analysis the key increase was recorded in materials consumption (because of parts to underground conveyors worth approx. PLN 20 million).

The value of outsourced services in Q4 2018 went up from PLN 118,058,000 in Q4 2017 to PLN 135,604,000 (+14.9%). In the period under analysis, the Company recorded increases in services related to drilling and redevelopment of excavations (PLN +12 million), modified scope of other mining & drilling and excavation works on working days and on Sundays and holidays (PLN +7 million) and an increase in the value of repair and maintenance works (PLN +3 million), with a concurrent drop in services related to coal rail transport (PLN -2 million) and in the service of stone removal for land reclamation (PLN -2 million).

In Q4 2018, compared to 2017, the value of employee benefits dropped by PLN 10,872,000.

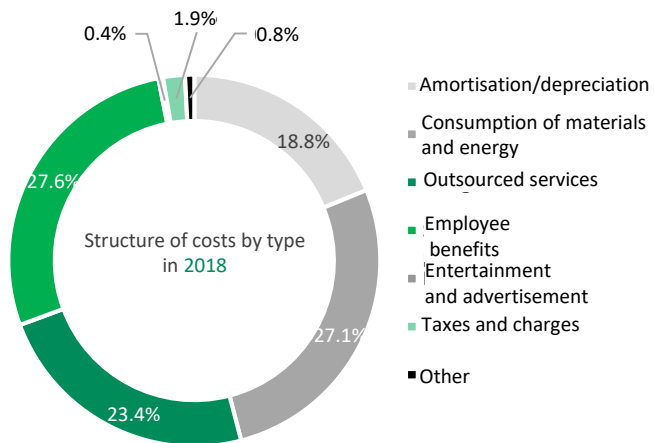
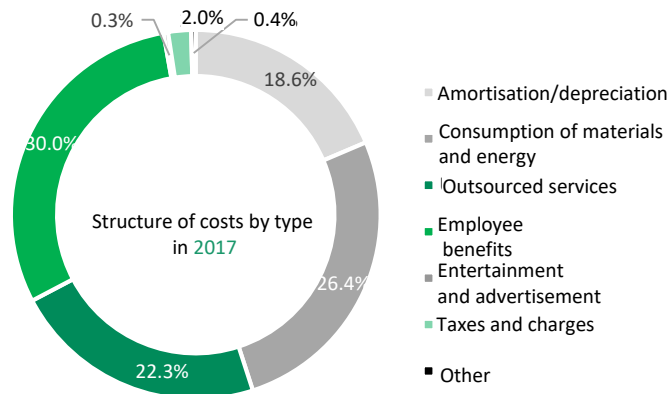
In 2017 the Company repurchased from the employees and their heirs the right to a "retirement" coal allowance and disbursed severance pays under the Voluntary Redundancy Programme implemented at the Company. At the same time, average employment y/y in LW Bogdanka S.A. increased by 250 people.

The increase in the value of entertainment and advertising costs is a consequence of different tranche payment schedules in relation to sponsoring of the "Górnik" Łęczna Sports Club.



Costs in LW Bogdanka S.A.

Costs by type



2018

In 2018, LW Bogdanka S.A. incurred costs in the amount of PLN 2,115,017,000, i.e. by 12.7% (PLN 239,092,000) 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, depreciation/amortisation and employee benefits.

The value of depreciation went up by 14.4% (to PLN 398,178,000) – the value of depreciation of non-current assets and natural depreciation went up. Increase in depreciation of non-current assets is primarily a result of the released in 2017 impairment loss in the amount PLN 495,982,000. Increase in the value of natural depreciation is a consequence of higher gross extraction (by 916,000 tonnes, with a drop in net production by 43,000 tonnes), thus relatively higher wall progress and liquidation of longwall galleries.

The total value of costs of materials and energy consumption increased by 15.6% compared to 2017 and amounted to PLN 572,379,000.

In the period under analysis, an increase was recorded in the value of (among other things) underground conveyors (PLN +23 million), of used construction elements of galleries (in 2018, 35.0 km of galleries were completed compared to 29.3 km in 2017, which represents an increase by 19.6%), i.e. arches, stirrups, metal sprags (PLN +29 million) as well as in the value of parts to mining machinery and equipment and other (PLN +9 million). Furthermore, in relation to a higher gross extraction the value of energy consumption went up (understood as a sum of electric and heat energy, water and waste water) by PLN 8 million.

Compared to 2017, the value of outsourced services in 2018 went up from PLN 418,889,000 to PLN 495,394,000 (+18.3%). In the period under analysis, the highest increases were recorded in the costs of:

- auxiliary works on working days (PLN +19 million),
- drilling and redevelopment of existing excavations (PLN +17 million),
- work on Saturdays and Sundays (PLN +6 million),
- mining and drilling services (+18.3 million in respect of preparatory works),
- higher costs of repairs and maintenance of mining machinery and equipment (PLN +23 million),
- transport services related to stone removal for land reclamation (PLN +3 million).

In 2018, compared to 2017, the value of employee benefits increased by PLN 20,943,000. In the period under analysis increase was recorded primarily in salaries (PLN +36 million) and overheads (PLN +4 million) as a result of higher average employment, salary rates and a one-off incentive bonus paid to the employees. Concurrently a decrease by PLN 19 million in other employee benefits took place (in 2017 the Company repurchased the right of existing and future retirees to a "retirement" coal allowance).

Higher expenses for entertainment and advertising result from an increased (within the allocated limit) involvement of Lubelski Węgiel Bogdanka S.A. in a local sponsorship action (in addition to the sponsoring of "Górnik" Łęczna Sports Club), including CSR promotion and social & cultural sponsorship activities.

The value of taxes, fees and charges paid in 2018 went up to PLN 39,695,000 from PLN 38,183,000 in 2017 – the real property tax as well as payments to the National Fund for the Disabled were higher (PLN +0.9 million and PLN +1 million, respectively).

The value of other costs increased from PLN 6,944,000 (2017) to 17,268,000 (2018) – in June 2018 a new insurance policy was taken out with coverage of 18 months from the date of signing thereof (same as the previous policy).

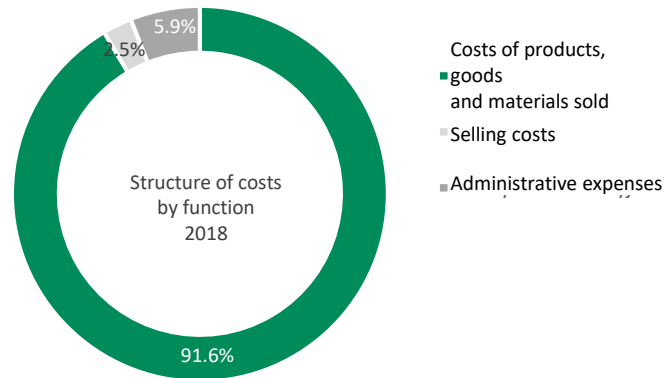
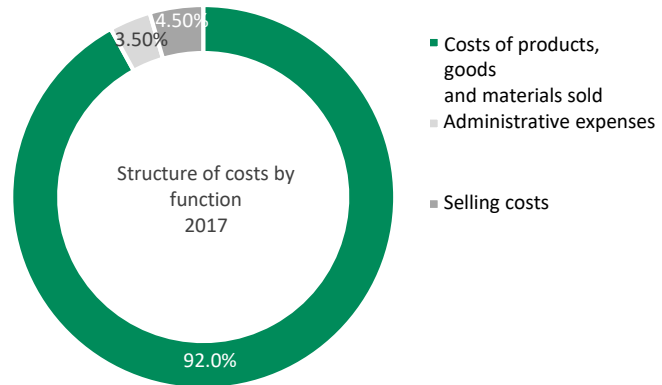
The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the four quarters of 2018 amounting to PLN 1,730,817,000. As compared to the previous year, it is higher by 84.8%.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In 2018 (compared to the same period of the previous year) the share of depreciation and amortisation costs went up to 18.8%, so as the share of materials and energy consumption (to 27.1%), share of outsourced services (to 23.4%) and other costs (to 0.8%). Entertainment and advertising costs stood at the same level. The share of employee benefits and taxes, fees and charges dropped (to 27.6% and 1.9%, respectively). Between 1 January 2018 and 31 December 2018 the consumption of materials and energy, outsourced services as well as employee benefits accounted for more than 78% of costs, while in the comparable period of 2017 it was almost 79% of total costs of the Company.



Costs in LW Bogdanka S.A.

Costs by function



Costs by function

The cost of own production sold (by function) in Q4 2018 amounted to PLN 454,197,000 while in the analogous period of the previous year, as a result of one-off events, it was negative and amounted to PLN -183,435,000.

Own cost of production sold (by function) in 2018 was PLN 1,730,817,000 and was higher by 84.8% (PLN 794,294,000) than the cost incurred in 2017.

[PLN '000]	Q4 2017	Q4 2018	Change	Q1-Q4 2017	Q1-Q4 2018	Change
Net production [in '000 tonnes]	2,338	2,186	-6.5%	9,050	9,007	-0.5%
Sales [in '000 tonnes]	2,453	2,155	-12.1%	9,151	8,943	-2.3%
Costs of products, goods and materials sold	-160,632	415,681	-	861,576	1,585,719	84.0%
Selling costs	11,249	11,275	0.2%	41,999	44,010	4.8%
Administrative expenses	-34,052	27,241	-	32,948	101,088	206.8%
Own cost of sales	-183,435	454,197	-	936,523	1,730,817	84.8%



Other information with influence on the financial standing on the LW Bogdanka Group

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

The LW Bogdanka Group monitors on an ongoing basis the level of costs, ratios and the value of accumulated cash. Current debt (a loan from the Regional Environmental Protection Fund and Water Management for Łęczyńska Energetyka), plus cash held, guarantee the financing on an on-going basis. In 2017 the Parent has had two bond issue programmes. On 10 March 2017 the Management Board of the Parent signed an annex to an agreement on the Bond Issue Programme of 30 June 2014, concluded with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego (2nd Programme Agreement) Due to above, on 30 March 2017, the Parent redeemed bonds worth PLN 300,000,000. In 2018, as per the schedule, the remaining bonds were redeemed (1st Programme Agreement) worth in total PLN 300,000,000.

Works are consistently conducted at the Parent to optimise the mining process (with respect to the applied technology, planned cutting of the deposit and access excavations for new deposits). All works (including new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks. Works to prepare new excavations for operational exploitation are carried out in such a manner so as to ensure the continuity of extraction. International and domestic coal prices are monitored on an ongoing basis.

The LW Bogdanka Group pays its liabilities when due. The Group effectively manages its financial resources and, at the same time, deposits free funds with banks (for durations and in amounts determined on the

basis of in-house financial forecasts). As at the date of drawing up the information, there are no premises indicating possible risk of not settling the contracted liabilities in future.

The Parent was well prepared for 2019. In 2018 a record-breaking scope of preparatory works was completed, therefore the estimated extraction in 2019 may amount to approx. 9.4 million tonnes, as announced in the Strategy. When we combine the above with higher contractual prices, we will be able to positively assess prospects for 2019. The Group's priority, except for higher extraction, is making the Ostrów deposit available for exploitation, to be started in 2020 according to the Management Board (based on underground infrastructure).

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 Group. The principal suppliers for the LW Bogdanka Group include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January and 31 December 2018, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

Investments and capital investments of LW Bogdanka Group

The value of cash held by the Group as at the end of December 2018 stood at PLN 299,072,000, of which:

- PLN 128,279,000 disclosed in non-current assets,
- PLN 170,793,000 is disclosed in current assets.

The amount of PLN 128,279,000 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 170,793,000 includes financial resources (available cash) kept in short- and medium-term bank deposits (including overnight deposits) – the amount of deposited cash varies depending on internal income and expenditure forecasts. In accordance with the adopted Strategy, the Group maintains the amount of available cash at the levels equal to at least the value of average monthly sales revenue (1/12 of forecast annual sales revenue). The funds accumulated at the Parent amount to PLN 154,522,000, while the funds accumulated at subsidiaries amount to PLN 16,271,000 (primarily Łęczyńska Energetyka).

Assessment of factors an untypical events affecting the operating profit

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

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

In Q1 2018, under a signed agreement related to salary payment, the employees of LW Bogdanka S.A. received a 5% salary raise and a one-off incentive bonus of PLN 2,700 (which was charged pro rata into monthly costs through accruals and prepayments).

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

In 2018 no material off-balance sheet items occurred.



Shares and Shareholding

4



Share capital and shareholding structure of LW Bogdanka S.A.

Share capital structure

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

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

The total number of votes resulting from all of the issued shares of the Issuer corresponds to the number of shares and equals 34,013,590 votes. The Company has a strategic majority shareholder. The majority shareholder is the Enea Group which holds a majority block of shares which accounts for 66.0% of the shares in LW Bogdanka S.A. (the majority shareholder's block of shares totals 22,448,834 shares, which corresponds to a nominal value of PLN 112,244,170). Other shareholders of the Issuer are mainly institutional investors in the form of pension and investment funds.

Treasury shares

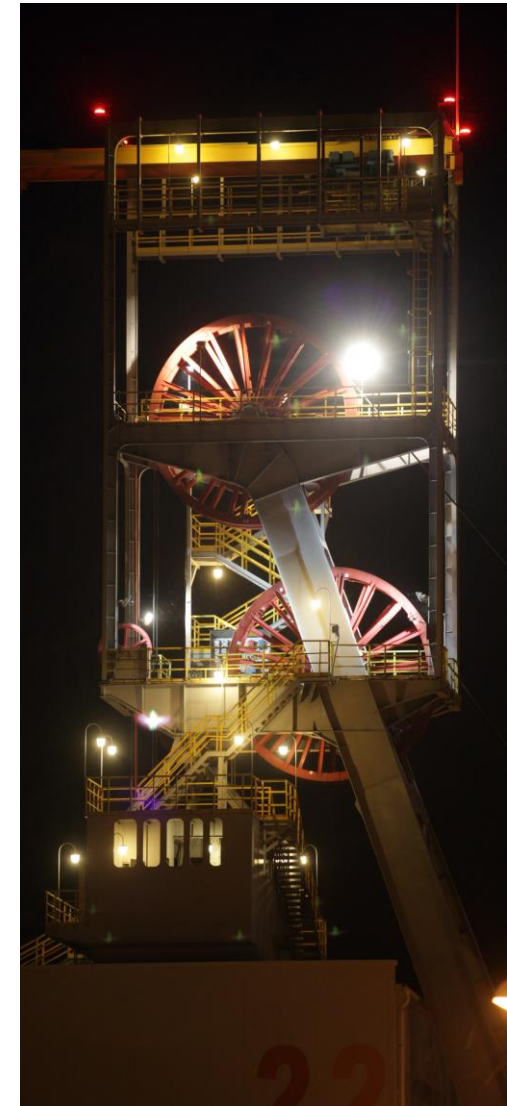
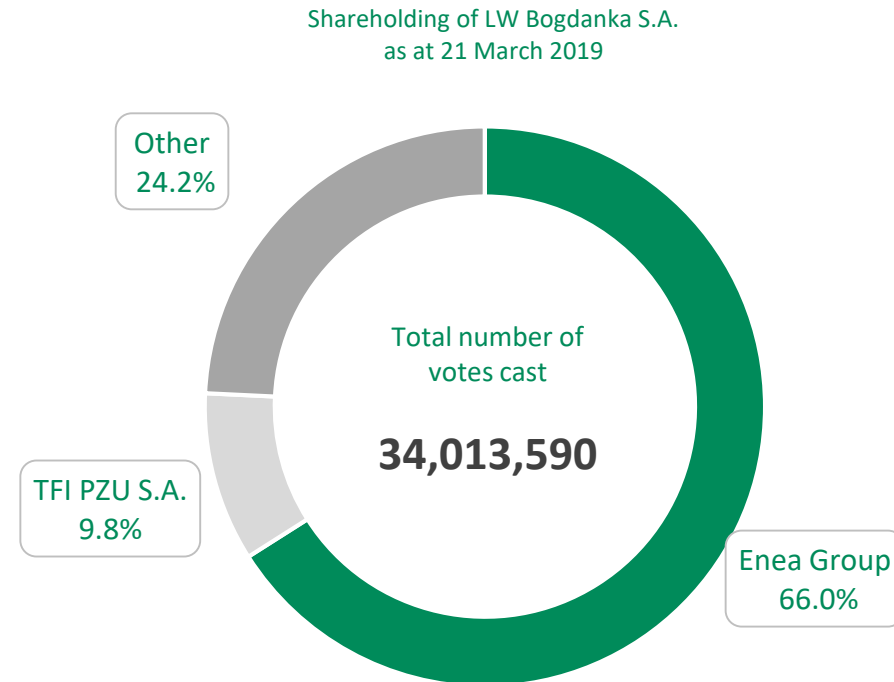
In 2018 LW Bogdanka S.A. and subsidiaries of LW Bogdanka S.A. did not acquire any treasury shares of the Company.

Changes in the shareholding structure by the date of the Report

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

Shareholding structure

The graph below shows a shareholding structure of the Company as the date of publishing this Report, i.e. 20 March 2019.





Shareholding structure

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

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

Shares held by management and supervisory personnel of LW Bogdanka S.A. are presented in the following tables:

Shares in related entities of the Company

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

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

Potential changes in the shareholding structure

On 4 July 2013, as part of the introduction of the Management Options Scheme at the Parent, the Annual General Shareholders Meeting of LW Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 registered series A subscription warrants.

Apart from the above mentioned scheme, the Group is not aware of any agreements or events that would result in future changes in the proportion of shares held by the existing Shareholders. Additional information is provided on page 81.

Name and surname	MANAGEMENT BOARD				
	The number of the Company shares as of 20 March 2019	Nominal value of the shares (PLN)	The number of the Company shares as of 23 November 2018	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
Artur Wasil	0	0	0	0	0
Dariusz Dumkiewicz	0	0	0	0	0
Artur Wasilewski	0	0	0	0	0
Adam Partyka	253	1,265	253	1,265	0
Name and surname	SUPERVISORY BOARD				
	Number of the Company's shares as at	Nominal value of the shares (PLN)	Number of the Company's shares as at	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	The number of the Company shares as of 20 March 2019	Nominal value of the shares (PLN)	The number of the Company shares as of 23 November 2018	Nominal value of the shares (PLN)	Number of shares in Subsidiaries
	253	1,265	253	1,265	0

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



Dividend policy of LW Bogdanka S.A.

Dividend policy

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

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

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

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

Dividend paid out of profit for 2015-2018

Item	Dividend payment year			
	2015	2016	2017	2018
Net profit (separate) for the previous year [PLN million]	272.9	-278	175.9	673.3
Total dividend [PLN million]	119	-	34	-
Dividend per share [PLN]	3.5	-	1	-
Earnings/(loss) per share [PLN]	8	-8.2	5.2	19.8
Dividend payment rate	43.6%	-	19.3%	-
Dividend rate	10.5%	-	1.5%	-










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

Participation of the LW Bogdanka's shares in indices

The Company was first listed on the Warsaw Stock exchange on 25 June 2009. During 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 Górniczo – includes companies classified into the "Mining" sector (former name of the sector was "Raw Materials").
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices.
- WIGdiv – includes 30 companies that are in the top 150 in the index ranking (prepared on the basis of Resolution No. 871/2013 of the WSE Management Board, as amended) and show the highest dividend yield at the end of November each year and have paid dividends at least three times in the last 5 financial years.
- Respect Index – index of socially responsible companies.

 0.98%	 0.21%	 3.54%	 0.42%	 0.83%
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Listings of the shares of LW Bogdanka S.A. in 2018



Key share indicators:	2016	2017	2018
Maximum price [PLN]	72.49	83.8	70.7
Minimum price [PLN]	30.39	59	45.2
Last price [PLN]	69.5	67	51.3
Average price [PLN]	49	71.5	56.86
Capitalisation at end of period [PLN million]	2,363.9	2,278.9	1,744.9
Book value [PLN million]	2,269.7	2,884.6	2,931.0
Price/earnings ratio	12.9	3.8	33.8
Price/book value	1	0.9	0.6
Rate of return at end of period [%]	109.3	-3.8	-23.2
Dividend rate [%]	-	1.5	-
Average turnover per session [PLN '000]	3,726.7	1,362.6	720.9
Average volume per session	43,201	19,011	12,712
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590



Investor relations – how we do it

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

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



In 2018 we took the following steps as part of the investor relations activities:

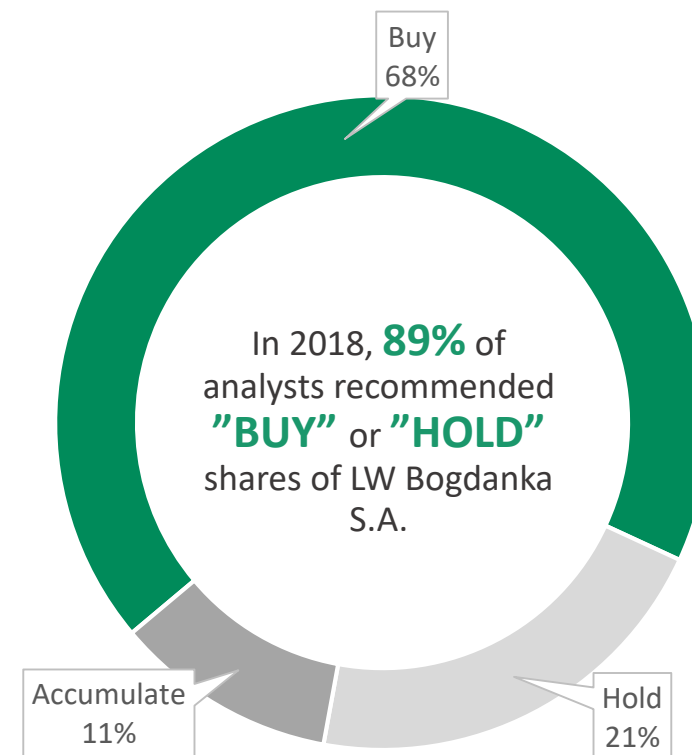
- we participated in numerous conferences and meetings addressed to institutional and individual investors
- we were at the disposal of investors from early morning to late in the evening – for phone calls, e-mails and face-to-face meetings
- every quarter, we met with the participants of the capital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





Analysts' recommendations

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
24 August	BZ WBK	Hold	PLN 64.90	PLN 59.70
13 September	Santander	Buy	PLN 72.00	PLN 52.80
17 September	BOŚ DM	Buy	PLN 77.00	PLN 57.60
24 September	Noble Securities	Accumulate	PLN 67.60	PLN 61.40
1 October	Vestor DM	Accumulate	PLN 72.70	PLN 68.50
28 November	PKO IB	Buy	PLN 80.80	PLN 54.00
5 December	BOŚ DM	Buy	PLN 78.00	PLN 55.90





Governing Bodies

5



Composition of the Management Board of LW Bogdanka S.A. as at 20 March 2019



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.



Artur Wasilewski

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

He graduated from the Lublin University of Technology in 1998 with a degree in Management and Marketing. In 2000 he completed postgraduate studies in Corporate Finance and Capital Market. In 2003 he graduated with a Master of Business Administration degree from Warsaw University & University of Illinois. He has participated in multiple training courses in the domains of finance and reporting according to the International Financial Reporting Standards (IFRS/IAS). He is a Member of Supervisory Boards of companies. In 1998-2000, he worked as a financial analyst at a consultancy firm DEMOS Sp. z o.o., gaining experience in the scope of analysis and price estimation of enterprises, consulting implementations of efficiency solutions, preparing privatisation reports for the Polish Ministry of Treasury. Since 2000 he has been part of Lubelski Węgiel BOGDANKA S.A. Within the Company, he has climbed the career ladder from Financial Analyst, Manager of Planning and Analysis to Chief Economist. Since 2013 he served as the Controlling Director and in 2018 he took the position of Controlling and Finance Director. Since October 2018, Vice-President of the Management Board, Economic and Financial Affairs of LW Bogdanka S.A.



Adam Partyka

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

He 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.



Dariusz Dumkiewicz

Vice-President of the Management Board,
Development

Graduate of the Faculty of Law and Administration at the Marie Curie Skłodowska University in Lublin, from which he graduated in 2002 with a degree in law. He has also completed postgraduate programme in "Project Management and EU Law" arranged by UMCS and the Lublin Development Foundation. In 2018 he completed his Master of Business Administration degree at the Lublin University of Technology. Mr Dariusz Dumkiewicz has 16 years' work experience in leading development and investment projects. From 2002 to 2006 he was employed in managerial positions at the City Council of Lublin, where he managed EU-financed projects. In 2006 he performed the role of advisor to the Minister in the Ministry of Labour and Social Policy as well as an expert in the area of Development of Eastern Poland in the Ministry of Development. In 2007 he was made Director of the Department of Strategy and Development in the Marshall's Office of the Lublin Province. He was responsible for negotiations with the European Commission and financing strategic infrastructure investment projects for the province. Since 2008 he was a Member of the Management Board, Vice-President of consulting firms that provide advice to enterprises, primarily in the energy sector. In 2016 he took the position of Head of Lublin Branch of PSG sp. z o.o., the distributor of natural gas in the Górnictwo Naftowe i Gazownictwo S.A. Group. Since 15 October 2018 - Vice-President of the Management Board responsible for Development at LW Bogdanka S.A.



Changes in the composition of the Company's Management Board

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.
16 February 2018	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.
19 September 2018	The Supervisory Board of the Parent adopted resolutions under which the following persons were dismissed from their positions in the Management Board: Mr Stanisław Misterek, Vice-President of the Management Board responsible for Economic and Financial Affairs and Mr Sławomir Karlikowski, Vice-President of the Management Board responsible for Production and Development.
4 October 2018	The Supervisory Board of the Parent adopted resolutions under which the following persons were appointed to the Management Board: Mr Artur Wasilewski to the position of Vice-President of the Management Board responsible for Economic and Financial Affairs as from 8 October 2018, and Mr Dariusz Dumkiewicz to the position of Vice-President of the Management Board responsible for Development as from 15 October 2018.
18 January 2019	Mr Marcin Kapkowski, Vice-President of the Management Board for Procurement and Investments, filed his resignation from his function as a Member of the Company's Management Board with effect from 31 January 2019.



Composition of the Supervisory Board of LW Bogdanka S.A. as at 20 March 2019

Mariusz Romańczuk
Member

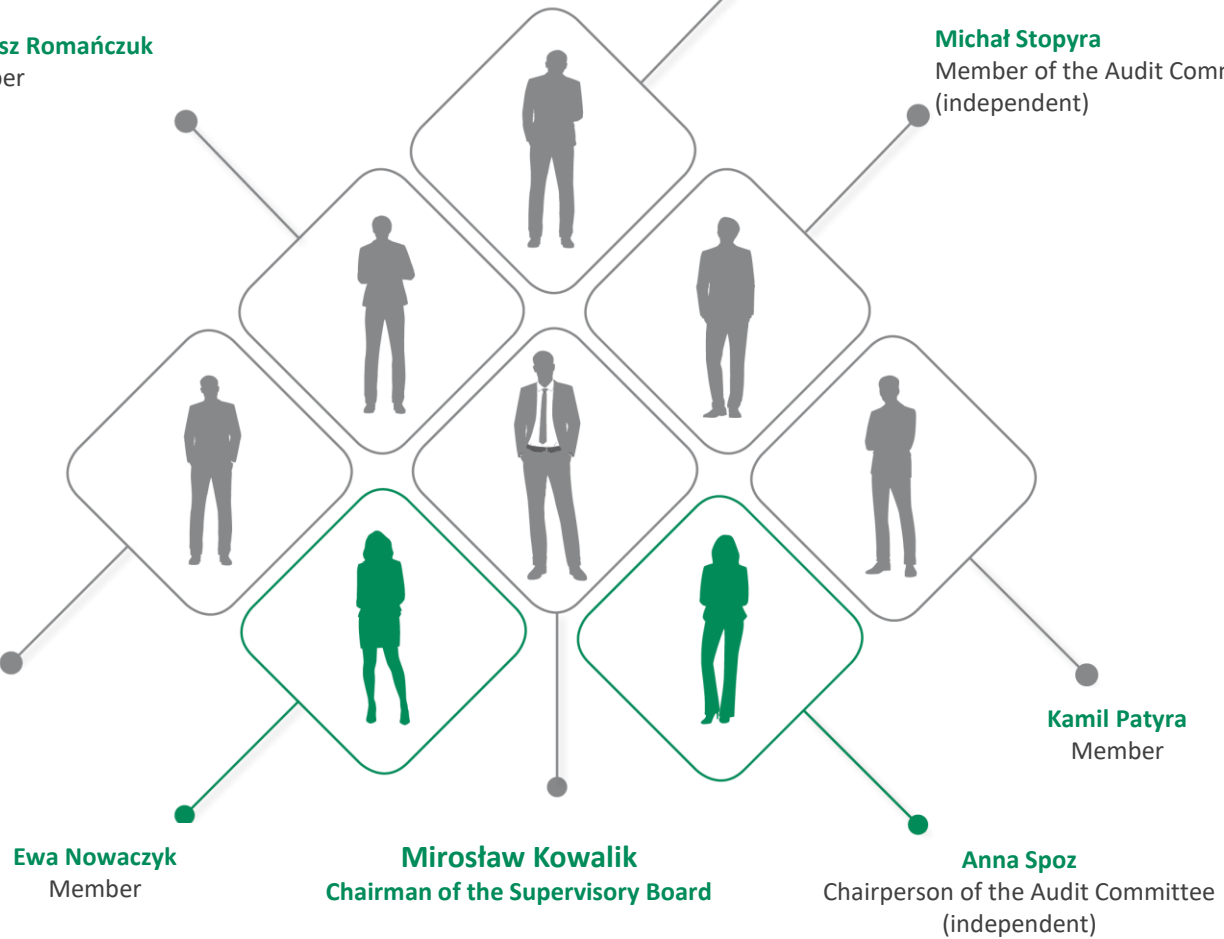
Przemysław Krasadomski
Deputy Chairman of the Supervisory Board, Member
of the Audit Committee

Michał Stopyra
Member of the Audit Committee
(independent)

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

In 2018 there were no changes in the composition of the Supervisory Board.

Szymon Jankowski
Secretary





Composition of the Company's Supervisory Board as at 20 March 2019

Mirosław Kowalik

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

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 been seated in the Supervisory Boards of PFK S.A. in liquidation, EP BUT S.A. and Enea Centrum sp. z o.o.

Szymon Jankowski

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 been 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

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 been 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

Kamil Patyra graduated in Administration at the Faculty of Law and Administration of Maria Curie-Skłodowska University in Lublin. 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

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

Anna Spoz

Anna Spoz graduated from Nicolaus Copernicus University in Torun. She has an MA in Management

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

Since 2002, she has been with POLTOR Sp. z o.o., at present as Finance Director. Since 2013, she has been a lecturer at the 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

Michał Stopyra graduated from the AGH University of Science and Technology, 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.



Rules of appointment and remuneration; salary levels at the Management Board

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

Detailed information can be found in Chapter 6. Corporate Governance on pages 83-93.

Rules of remuneration of the Management Board Members

The rules of remuneration of the members of the Management Board of LW Bogdanka S.A. which applied in 2018 were introduced under the Resolutions of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 7 March 2017 and of the Supervisory Board of the Company of 30 July 2018, as amended. All members of the Management Board entered into service agreements - management contracts, referred to in the Act on the rules for determining the remuneration of persons managing certain companies of 9 June 2016.

The management service agreements signed by the Company stipulate that:

- during the term of the Service Agreement, Members of the Management Board are entitled to a fixed monthly salary and variable salary, being additional remuneration for the Company's financial year.
- in return for compliance with the non-compete obligations during the non-compete period, Members of the Management Board are entitled to compensation in the total amount equal to 0.5 of their fixed monthly salary multiplied by 6;
- if the Agreement is terminated, a Member of the Management Board is obliged to pass his or her duties onto an authorised person(s) including a

duty to appear in person on request of the Company, make requested explanations, provide information, documents and objects related to Agreement performance in a reliable manner.

- The Members of the Management Board are entitled to a severance pay in the amount of the three-fold monthly remuneration on condition that the Member of the Management Board holds their function for a period of at least 12 months prior to termination of the Agreement except for the following situations:
 - ✓ The Agreement is terminated, dissolved or amended as a result of change of the function held by the Member of the Management Board in the Management Board,
 - ✓ The Agreement is terminated, dissolved or amended as a result of appointment of the Member of the Management Board for the next term of office,
 - ✓ The Manager assumes the position of a member of the Management Board in a group company, within the meaning of Article 4.14 of the Act on the protection of competition and consumers of 16 February 2007.
 - ✓ Resignation from the function held.

In the event of violation of the non-compete obligation by members of the Management Board, they lose the right to receive any further instalments of the compensation and are obliged to pay liquidated damages to the Company.

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

Depending on the assumed levels of Key Performance Indicators (KPI), members of the Management Board may be awarded an annual bonus amounting to 50% of the basic salary received

in the given year.

The total annual remuneration of Members of the Management Board at LW Bogdanka S.A. as presented in the table below may be composed of four parts: fixed remuneration, variable part of the remuneration (bonus paid out depending on the level of performance of the annual target), severance pay, non-competition compensation. In 2018 no Member of the Company's Management Board received any variable part of remuneration or the non-competition compensation. The only benefit paid to the Members of the Management Board, in addition to the fixed part of remuneration, were severance pays made to: Mr Krzysztof Szlaga - PLN 156,000, Mr Sławomir Karlikowski - PLN 141,000 and Mr Stanisław Misterek - PLN 126,000.

Remuneration of individual Members of the Management Board paid in 2018

The total gross remuneration paid by the Company to the Members of the Management Board in 2018 amounted to PLN 3,134,000 (other benefits amounted to PLN 16,000). For fulfilling their duties in the Company, the Members of the Management Board received remuneration under a Service Agreement. In 2018, Members of the Management Board of the Company did not receive remuneration for holding functions in the subsidiaries of LW Bogdanka S.A.

Gross remuneration paid to the Company's proxies in 2018 amounted to PLN 1,397,000. For fulfilling their duties for the Company, proxies received remuneration under an Employment Contract only.

Name and surname	The term of office in the Management Board in 2018	Total remuneration [PLN]
Artur Wasil	21 March – 31 December	487,067.0
Adam Partyka	1 January – 31 December	504,000.0
Artur Wasilewski	8 October – 31 December	126,000.0
Dariusz Dumkiewicz	15 October – 31 December	107,800.0
Krzysztof Szlaga	1 January – 21 February	244,400.0
Stanisław Misterek	1 January – 19 October	530,600.0
Sławomir Karlikowski	1 January – 19 October	593,766.7
Marcin Kapkowski	1 January – 31 December	540,000.0

Remuneration of individual members of the Company's Management Board paid in 2018 on account of employment contracts

The Members of the Management Board are employed under management service agreements.

MANAGEMENT OPTIONS SCHEME

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013-2017. As at 31 December 2017, a total of 1,143,863 options were allocated within the Management Options Scheme.

Following the conclusion of Agreements on termination of the Scheme participation agreements with all Scheme members, in August 2018 each participant received PLN 1 gross as a compensation for their rights to management options.

Changes in the rules of remuneration after 31 December 2018

There were no changes in the rules of remuneration after 31 December 2018.



Rules of appointment and remuneration; salary levels at the Supervisory Board

Rules of remuneration of the Company's Supervisory Board

Members of the Supervisory Board are entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with the performance of their duties, and in particular the costs of travel to take part in Supervisory Board's meetings, board and accommodation, as well as costs incurred in connection with exercising individual supervision. The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership. The remuneration of members of the Supervisory Board was determined by virtue of resolution No. 30 of the General Shareholders Meeting of 26 June 2017 as a product of the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year as announced by the President of the Central Statistics Office of Poland and the multiplier 1.2. Moreover, in relation to the Enea Group regulations for the representatives of the Enea Group in the Supervisory Board of the Company, a fixed flat-rate monthly remuneration has been established in the amount of PLN 1.0 for each month.

That provision was amended by virtue of resolution No. 5 of the Extraordinary General Shareholders Meeting of 17 August 2016 which specifies that the indicated representatives of the Enea Group in the Supervisory Board of the Company are not entitled to any remuneration. The above provisions regarding the remuneration of the Supervisory Board Members were confirmed by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 on the rules for determining the remuneration of the Supervisory Board Members.

Amount of remuneration of individual members of the Supervisory Board paid out in 2018

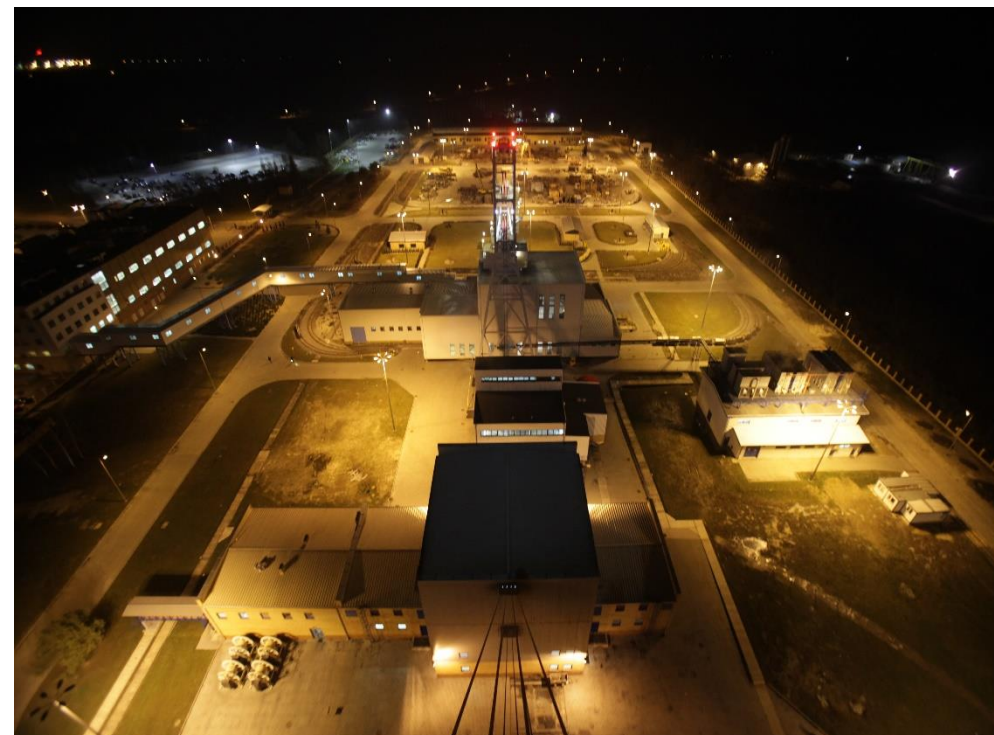
A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2018 amounted to PLN 477,700, including:

Name and surname	Remuneration
Kowalik Mirosław	PLN 0.0
Krasadomski Przemysław	PLN 68,248.9
Jankowski Szymon	PLN 68,248.9
Ewa Nowaczyk	PLN 68,248.9
Kamil Patyra	PLN 68,248.9
Mariusz Romańczuk	PLN 68,248.9
Anna Spoz	PLN 68,248.9
Michał Stopyra	PLN 68,248.9

Other benefits and sources of remuneration

In 2018 Members of the Management Board and the Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the subsidiaries.

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





Corporate Governance

6



Corporate governance rules and rules departed from

In 2018, LW Bogdanka S.A. complied with the new rules of the "Best Practice for WSE Listed Companies" (hereinafter the "Best Practice for WSE Listed Companies"), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warsaw of 13 October 2015. The Best Practice for WSE Listed Companies is available on the WSE website devoted to corporate governance - <https://www.gpw.pl/dobre-praktyki>

Corporate governance rules departed from

The intention of the Company's Management Board is to apply all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Company that would dominate the potential benefits arising from market needs, in 2018 the Company departed from the application of some of the corporate governance rules and recommendations as specified below.

The Company did not apply the following two detailed principles of "Best Practice for WSE Listed Companies": Part I. Information policy and communication with the investors - I.Z.1.15.

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

Comment:

The above principle does not apply due to the specificity of the industry in which the Company operates. Although diversity policy principles have not been implemented in the Company, in matters related to human resources the Company acts in accordance with the current needs of the enterprise, paying special attention to the expertise, education and professional experience of the candidates.

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

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

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

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

Comment:

The Company has surrendered the above principle due to the technical and legal risk that the Company believes to exist. According to the Company, the option to participate in the General Shareholders Meetings with the use of electronic means of communication may involve a risk of incorrect identification of people authorised to attend the General Shareholders Meeting and cause disturbances during the course of the General Shareholders Meeting.

As a result, the resolutions adopted could potentially be questioned. The Company does not exclude a possibility to provide the Shareholders with bilateral real-time communication during the sessions of the General Shareholders Meeting in the future.





Diversity policy

The Company does not maintain any formal diversity policy for its administrative, management and supervisory bodies. The rules for appointing the Company's Management Board and Supervisory Board members are defined in the Articles of Association.

While appointing its governing bodies, the Company lays great emphasis on ensuring versatility and diversity of education, age and professional experience of the candidates, but does not discriminate against anyone on the grounds of sex, age, origin or other factors which do not affect the assessment of the candidate's suitability for a given position. Appropriate background for the job is a factor which plays a decisive role.

Irrespective of the above, the Company follows a diversity policy on candidate selection. LW Bogdanka's diversity policy is aimed at exploiting employee potential, using their skills, experience, talents and qualifications in the atmosphere of respect and support. Such an approach applies to all of the Company's employees, thereby improving the Company's operations and building its strong market position.

We believe that with such a diversity policy in place the Company improves work efficiency, builds trust and prevents discrimination, thus creating the atmosphere of mutual respect.

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

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

Under the Work Rules, one of the basic obligations of the employer is to prevent discrimination at the workplace, especially on the grounds of sex, age, disability, race, religion, nationality, political beliefs, membership in trade unions, ethnic origin, faith and sexual orientation, as well as on the grounds of fixed-term or permanent employment contracts, or full-time

or part-time employment. A policy of equal employee development opportunities is a key element of the strategy pursued by the Company.

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

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

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

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

- ensuring that all the employees are familiar with the Code of Ethics and constantly promoting the standards of ethical conduct at the mine (company website, boards, roll-ups, posters, notifications, OHS gazette, etc.).
- training sessions regarding discrimination and harassment for the management staff
- equal access for women to the decision-making processes, promotions, pay rises and management positions
- using a non-discriminatory remuneration system
- equal access to training for all employees

- dialogue with employee representatives (trade unions)
- regular internal communication with all the employees
- pension schemes
- support for the families of the employees in need (the Solidary Miners Foundation)
- equal support for local initiatives.

LW Bogdanka S.A. – Management Board as at the end of 2018

	2018
Total	5
Women	0
Men	5
Below 30 years	0
Between 31 and 40 years	2
Between 41 and 50 years	2
Over 50 years	1
Foreigners	0

LW Bogdanka S.A. – Supervisory Board as at the end of 2018

	2018
Total	8
Women	2
Men	6
Below 30 years	0
Between 31 and 40 years	4
Between 41 and 50 years	2
Over 50 years	2
Foreigners	0



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

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

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

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

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

- rights and obligations – distribution of tasks among employees enables early detection of errors of abuses
- reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end
- promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations
- valuation and allocation – assets and liabilities are properly valued, and profits and costs are

- disclosed in their proper amounts
- presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents
- monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company
- confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons
- availability – systems and software applications are available in time required for carrying out and recording operation and transaction
- compliance – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

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

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

The accounting ledgers of LW Bogdanka S.A. are maintained using the FINANSE IT system, which forms part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Beginning with the second half of 2018 this procedure is handled with the use of Electronic Document

Circulation system. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President of the Management Board for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to the experience and qualifications of the finance and accounting personnel, supervised by the Company's Chief Accountant.

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

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

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

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

The adopted rules of procedure with regard to drawing up the financial statements and the adopted "Policy of selecting an audit firm to audit Lubelski Węgiel Bogdanka S.A., Policy of performing permitted non-audit services and Procedures for the selection of an audit firm" are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.



Shareholders directly or indirectly holding substantial shareholdings at the Company

Shareholder	21 March 2019	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
The Enea Group*	22,448,834	66.0%
TFI PZU SA**	3,320,620	9.8%
Other	8,244,136	24.2%
Total	34,013,590	100.0%

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

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

Shares and shareholding

A detailed description of the share capital structure, shareholding structure, changes in its structure in 2018 as well as possible changes in the structure is described in Chapter 4. Shares and shareholding

Owners of all the securities which entitle to special control rights

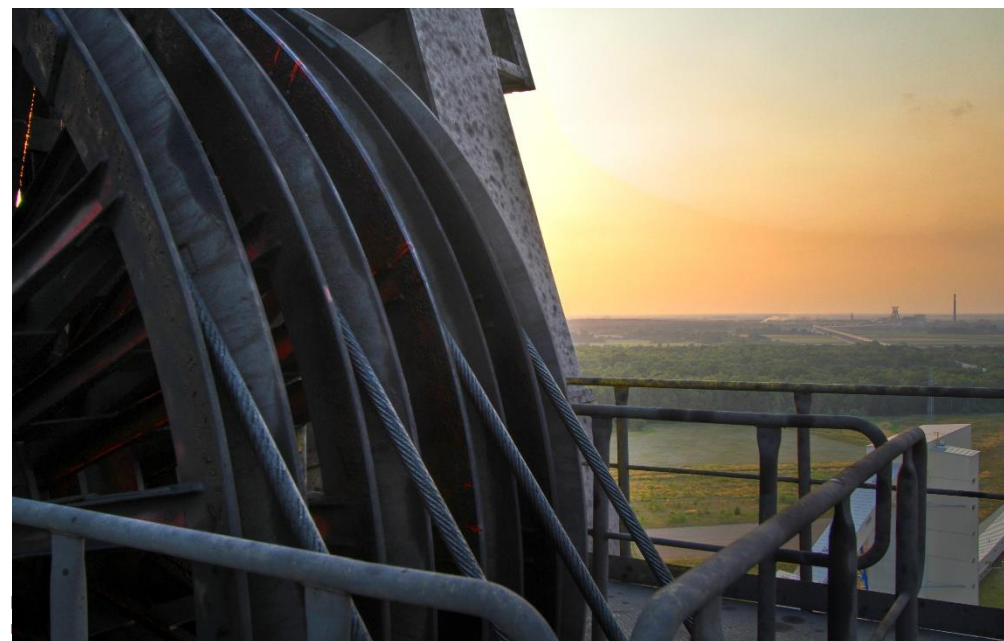
The Company has not issued any securities which would entitle shareholders to special control rights.

Restrictions on exercising the voting right

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

Restrictions on transferring ownership of the Company's securities

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



Amendments to the Articles of Association of the Company shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Articles of Association of LW Bogdanka S.A. as well as provisions of the Commercial Companies Code. If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.



Governing Bodies in LW Bogdanka S.A. Management Board

Composition

Pursuant to the Articles of Association of the Company, the Management Board shall be composed of three to seven members, including the President of the Management Board and other members of the Management Board.

At present, the Management Board of LW Bogdanka S.A. is composed of four persons.

As at the day of submitting the Report, the composition of the Management Board of the Company was presented in Chapter 5 - Governing Bodies of the Group, page 79.

Appointing and dismissing members of the Management Board

In accordance with Articles of Association, members of the Management Board or the entire Management Board are appointed and removed from office by the Supervisory Board. When appointing the Members of the Management Board, the Supervisory Board complies in particular with the rules set out in Article 17.2-17.3 and Article 19.4-19.5 of the Company's Articles of Association and the rules provided for in generally applicable laws. Rules governing the appointment and dismissal of the President and Vice-Presidents of the Management Board of the Company are governed by the Articles of Association of LW Bogdanka S.A.

Members of the Management Board are appointed for a joint term of office which lasts three subsequent years. Mandates of the Management Board members arise when members are appointed to their function, and expire on a date on which the General Shareholders Meeting approves the financial statements for the last full financial year in which the function is performed, or upon dismissal, resignation or death of the Management Board member.

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

Description of operations and authorisations

In compliance with the Company's Articles of Association the Management Board manages the Company's operations and represents the Company in relations with third parties.

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

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

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

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

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

- adoption of the Rules of Procedure of the Management Board;
- adoption of the Organisational Rules of the Company's enterprise;
- creation and liquidation of the Company branches;
- appointment of proxies and attorneys, with the exception of attorneys in litigation, with a proviso that a consent of all Management Board members is required in order to appoint a proxy;
- adoption of a material and financial plan, including an investment plan;
- the Company granting guarantees, suretyships and avals;
- issuing and accepting promissory notes with a net value exceeding PLN 200,000 (two hundred thousand zloty);

- carrying out other legal acts that result in assuming a liability or acquiring, disposing of, or encumbering non-current assets with a total net value of more than PLN 200,000 (two hundred thousand zloty);
- any matters which are submitted by the Management Board for consideration by the Supervisory Board, the General Shareholders Meeting, or the ENEA Group's Committees.

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

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

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

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

Information about Management Board meetings and the resolutions adopted

In 2018 the Management Board held 60 minutes meetings and adopted a total of 1,604 resolutions. In accordance with Section 5.6 of the Rules of Procedure of the Management Board 15 resolutions were adopted in a written manner.

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

Information on powers of proxy granted and revoked

In 2018 the Management Board of the Company did not grant or revoke any new power of proxy. In 2019 powers of proxy were granted to Mr Krzysztof Kwiatkowski and Mr Cezary Wójcik.

Dividend policy

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

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

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

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



Governing Bodies in LW Bogdanka S.A. Management Board

Tasks and obligations of the members of the Management Board in 2018

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

- is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards
- represents the Company in relations with third parties
- presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions
- directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
 - a) company organisation
 - b) supporting the operations of the Company's governing bodies
 - c) privatisation, Company restructuring
 - d) ownership supervision and capital investments
 - e) internal structural and ownership transformations
 - f) providing information and reports to investors, shareholders and stock exchange institutions
 - g) Implementing the LW Bogdanka S.A.'s strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company
 - h) project management

- i) supervision over tasks related to the maintenance and enhancement of the Compliance system
- j) co-operation with the media and the information policy
- k) internal audit in the Company
- l) maintenance and development of production capacities (future plans with regard to the development and modernisation of the production process)
- m) control over materials and machine management
- n) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant
- o) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse
- p) sales and wholesale shipping of coal
- q) coal warehousing
- r) market analyses.

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

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

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

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

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

- HR policy and employee matters
- occupational health and safety, training courses
- current records archive and general secretariat
- matters of defence
- IK protection and security
- social matters
- ethics
- corporate social responsibility
- cooperation with trade union organisations
- personal data protection
- and on the basis of Resolution of the Management Board No. 598/IX/2016 of 14 June 2016 (in accordance with the Act on Protection of Inside Information of 5 August 2010) also covers:
 - protection of inside information.

Vice-President of the Management Board, Development

The Vice-President for Development organises and supervises the Company's operations in the following areas:

- innovation, research and implementation
- planning and technical analyses
- environmental protection and utilisation of pit waste
- mining damage
- risk management
- working together with Management Board members on the development of growth concepts, long-term economic plans and development production plans
- analysing technical advancements and implementing state-of-the-art and innovative solutions.

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

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

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

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

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

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



Governing Bodies in LW Bogdanka S.A. Supervisory Board

Appointment and removal from office of the Supervisory Board members

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

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

Should a Board Member resign from their function, he or she shall submit a written statement of resignation to the Management Board and provide the same for the attention of the Supervisory Board. The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial year when the Supervisory Board Members performed their function.

Composition

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

As at the day of submitting the Report, the composition of the Supervisory Board of the Company was presented in Chapter 5 - Governing Bodies of the Group, page 81.

Description of activities

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

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

- assessment of the Directors' Report on the Company's operations, the financial statements for the preceding financial year, the Directors' Report on the Group's operations, and the consolidated financial statements of the Group, if such reports are prepared
- selection of a chartered auditor to audit annual financial statements and consolidated financial statements of the Group
- assessment of motions of the Management Board regarding the distribution of net profit or covering of net losses
- submission to the General Shareholders Meeting of an annual written report on the results of the assessments referred to in items 1 and 3
- adopting rules laying down the detailed procedure followed by the Supervisory Board
- adoption of the uniform text of the Company's Articles of Association prepared by the Management Board
- granting consent for making an advance payment to the shareholders towards an anticipated dividend
- approving the Rules of Selecting and Dismissing Supervisory Board Members Selected by the Company's Employees
- appointing and dismissing members of the Management Board, including the President of the Management Board
- determination of the remuneration of Management Board members
- suspending the Management Board members from office
- delegation of the Supervisory Board members,

for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason

- granting permission to Management Board members for accepting positions on the governing bodies of other entities
- approval of material and financial plans, long-term development plans, and area strategies adopted by the Management Board
- granting consent for purchasing and disposing of non-current assets the value of which exceeds PLN 20,000,000
- representing the Company in agreements and disputes between the Company and the Management Board members
- granting consent for the Company to enter into a significant agreement with a shareholder holding at least 5% of the total vote in the Company or a related entity. A significant agreement within the meaning of the previous sentence shall be an agreement whose value, on the date of the agreement, exceeds 10% of the value of the Company's consolidated equity established on the basis of the latest published financial statements of the Company. The above obligation does not apply to typical transactions and transactions executed on an arm's length basis within the Company's operating activities with entities that form part of the Group
- granting consent to enter into:
 - a) a contract for legal services, marketing services, public relations and social communication services, and management consulting services, if the amount of the expected total remuneration for those services exceeds PLN 500,000 net annually
 - b) an amendment to a contract for legal services, marketing services, public relations and social communication services, and management consulting services which raises the remuneration above PLN 500,000 net annually
 - c) a contract for legal services, marketing services, public relations and social communication

services, and management consulting services which does not stipulate the maximum remuneration

- d) a donation agreement or other agreement with a similar effect the value of which exceeds PLN 20,000, or 0.1% of total assets, within the meaning of the Accounting Act of 29 September 1994, established on the basis of the last approved financial report
- e) a debt release agreement or other agreement with a similar effect the value of which exceeds PLN 50,000, or 0.1% of total assets, within the meaning of the Accounting Act of 29 September 1994, established on the basis of the last approved financial report
- giving an opinion on the report on hospitality expenditure presented to the General Shareholders Meeting by the Management Board, as well as on expenses on legal services, marketing services, public relations and social communication services, and management consulting services
- giving an opinion on the report on hospitality expenditure presented to the General Shareholders Meeting by the Management Board, as well as on expenses on legal services, marketing services, public relations and social communication services, and management consulting services.

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

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

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



Governing Bodies in LW Bogdanka S.A. Audit Committee

Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2018.

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

In 2018, the Audit Committee operated in the following composition:

Composition of the Audit Committee from 15 January 2018

Anna Spoz ^{1) 2)}	Chairman
Przemysław Krasadomski	Member
Michał Stopyra ^{1) 3)}	Member

¹⁾ independent member within the meaning of Article 129.1.3 of the Act on Statutory Auditors, Audit Firms and Public Regulators of 11 May 2017,

²⁾ a member having knowledge and skills with respect to accountancy or auditing financial statements,

³⁾ a member having knowledge and skills regarding the industry in which the issuer operates.

the manner of acquiring knowledge and skills referred to in items 3) and 4) is discussed in Chapter 5. Composition of the Company's Supervisory Board as at 21 March 2019

Membership in the Committee shall terminate along with the termination of the membership in the Supervisory Board, however a Committee member may be at any time by a resolution of the Supervisory Board removed from the composition of the Committee.

A Committee member may also resign from membership in the Committee at any time filing a resignation to the Committee Chairman. In the case of the Committee Chairman he shall file his resignation to

the Chairman of the Supervisory Board. When the Committee Chairman is the Chairman of the Supervisory Board then the Committee Chairman shall file the resignation to the Vice-Chairman of the Supervisory Board.

The Chairman of the Committee shall be elected by the Supervisory Board. The Chairman of the Committee shall direct and supervise the Committee's work, in particular the organisation and course of Committee meetings.

The Chairman of the Supervisory Board may belong to a committee of the Supervisory Board, but cannot act as Chairman of the Audit Committee.

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

Notifications of committee meetings shall be subject to the provisions on notifications of Board meetings.

Committee meetings shall be held as necessary, and one meeting shall be held before the Company publishes its financial statements.

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

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

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

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

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

The Audit Committee held 8 meetings in 2018 and adopted 7 resolutions.

Information on appointing a chartered auditor

In order to review the financial statements of the Company and the consolidated financial statements of the Group for the first halves of 2018, 2019 and 2020 and to audit the financial statements of the Company and the consolidated financial statements of the Group for 2018, 2019 and 2020 as well as to prepare written opinions and reports on whether the financial statements are correct and present in a reliable and clear manner the financial standing and financial results of the Company and the Group, having conducted a tender, the Supervisory Board, following a recommendation of the Audit Committee, by virtue of Resolution No. 46/X/2018 of 5 January 2018, appointed PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.) with with registered office in Warsaw (hereinafter: PwC) as the auditor. PwC since 16 February 1995, has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors. Except for auditing the annual financial statements of the Company and the consolidated financial statements of the Group, as well as reviewing interim financial statements, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k., in 2018 performed:

- other attestation services (audit and review of a group package for the purposes of ENEA),

- review of the correctness of calculations regarding the excise tax indicator for 2017.

At the time of performance of the above activities, PwC, as an entity authorised to audit financial statements, as well as chartered auditors performing auditing activities for Lubelski Węgiel Bogdanka S.A. were independent of LW Bogdanka S.A. as referred to in Articles 69-73 of the Act on Statutory Auditors, Audit Firms and Public Regulators of 11 May 2017.

Key assumptions of the Audit Firm selection policy

The factors taken into account in selecting an Audit Firm include, in particular, the experience of the audit team in conducting audits of companies, its competencies, a financial criterion and human resources. The choice is

made in observance of the principle of impartiality and independence of the Audit Firm, in accordance with the laws on mandatory rotation of Audit Firms and key statutory auditors, mandatory waiting periods, and the results of reviews of Audit Firms contained in an annual report published by the Polish Financial Supervision Authority. 6. The first statutory audit contract is concluded with an Audit Firm for a period of not less than two years, with the possibility of its extension for successive periods of not less than two years. The maximum duration of continuous statutory audit engagements of the same Audit Firm may not exceed five years. An Audit Firm may be re-engaged after at least four years of the end of its previous statutory audit.

Key assumptions of a Policy for providing permitted non-audit services by an Audit Firm

LW Bogdanka S.A. and its subsidiaries may avail of permitted services (defined in accordance with Article 136 of the Act on Statutory Auditors) provided by an Audit Firm that conducts an audit, unless they refer to tax policy of the companies. Permitted non-audit services may be rendered by an Audit Firm provided that it has been approved by the Audit Committee first, after completing an assessment of any threats and safeguarding the independency of the Audit Firm, key chartered auditor and other members of the team performing the audit. Additionally, in the event that the Audit Firm provides permitted non-audit services for a period of at least three consecutive financial years, then the fee for those services shall be limited to 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of a company and, where applicable, its subsidiaries and the consolidated financial statements of that group of undertakings. In the case of prohibited services, i.e. services other than permitted services, it is prohibited to provide them, directly or indirectly, to LW Bogdanka S.A. and its subsidiaries by the Audit Firm which performs the audit, in the period from the beginning of the audit period until the issue of an audit report.



General Shareholders Meeting

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

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

Convening a General Shareholders Meeting

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

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

Shareholders rights

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with

a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

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

Right to participate in the General Shareholders Meeting

Only persons who are shareholders of the LW Bogdanka S.A. sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the Meeting with the right to vote. Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the Meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the Meeting.

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

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

Right to participate in the General Shareholders Meeting through a proxy

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

Adopting resolutions by the General Shareholders Meeting

In accordance with the Articles of Association, the General Shareholders Meeting adopts resolutions if at least half of the share capital is represented at the General Shareholders Meeting.

At the General Shareholders Meeting, one share confers the right to one vote.

The following matters, in addition to those resulting from applicable laws, require a resolution of the General Shareholders Meeting:

- review and approval of the financial statements for the previous financial year and of the Directors' Report on the Company's operations;
- decision on the distribution of net profit or coverage of net loss;
- discharging members of the Company's governing bodies of their duties;
- setting the dividend date and dividend payment date;
- appointment and dismissal of the Supervisory Board members;
- determination of the number of the Supervisory Board members;

- determination of the rules for remuneration of Supervisory Board members and Management Board members;
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon;
- entry by the Company or its subsidiary into a loan, borrowing, surety or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator;
- determination of the rules, procedures and terms of share redemption;
- creation and liquidation of the Company's funds or capital;
- adoption of the Rules of Procedure of the General Shareholders Meeting specifying in detail the rules for holding meetings and adopting resolutions;
- entering into and leaving the ENEA Group by the Company;
- adopting or repealing the ENEA Group Code following a recommendation of the Management Board and opinion of the Supervisory Board.

Furthermore, issues listed in Article 12.2 of the Company's Articles of Association require a resolution of the General Shareholders Meeting.

Rules governing introducing amendments to the Company's Articles of Association

In compliance with the Commercial Companies Code, a resolution adopted with a specified majority of votes and an entry to the register are required for the amendment of the Company's Articles of Association. As far as an amendment to the Articles of Association is concerned, the Company's Articles of Association do not contain any provisions contrary to the Commercial Companies Code governing this matter.



General Shareholders Meeting

Information of General Shareholders Meetings of LW Bogdanka S.A. held in 2018

In 2018 one Annual and two Extraordinary General Shareholders Meetings of the Company were held:

Annual General Shareholders Meeting of 25 June 2018, which was held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 25 June 2018:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging that the General Shareholders Meeting has been validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Recognising the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2017.
- Recognising the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group and the Consolidated Directors' Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2017.
- Presentation of the Management Board's motion regarding the distribution of net profit for 2017.
- Presentation of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the financial year 2017.
- Presentation of the report on hospitality expenditure, marketing services expenditure, expenditure on public relations and social communication services as well as management consulting and legal services for 2017.
- Adopting resolutions on:
 - approval of the Financial Statements of Lubelski Węgiel Bogdanka S.A for 2017,
 - approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. for 2017,

- approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2017,
- approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2017,
- granting discharge to the members of the Management Board of Lubelski Węgiel Bogdanka S.A. in respect of performance of their duties in 2017,
- approval of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the financial year 2017,
- granting discharge to the members of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. in respect of the performance of their duties in 2017,
- distribution of net profit for 2017.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 24 August 2018, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 24 August 2018:

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

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





Statement on
Non-Financial
Information

7



The Company and its business model

Below is the 2018 LW Bogdanka S.A.'s and the LW Bogdanka Group's Statement on Non-Financial Information for 2018 ("Statement") which is a separate part of the Directors' Report on Operations of LW Bogdanka S.A. and the LW Bogdanka Group for 2018 (prepared as one document), covering non-financial information for the period from 1 January 2018 to 31 December 2018. The Statement was drawn up based on our own rules with account taken of the provisions of the Accounting Act of 29 September 1994, the European Commission guidelines on non-financial reporting, Polish non-financial information standards (SIN), and the GRI Standards.

General information

Policies and performance indicators presented in the Statement were selected and described on the basis of the materiality criteria with account taken of the internal and external factors regarding the operations of LW Bogdanka S.A. and the LW Bogdanka Group. The main factors considered when assessing the materiality were as follows: the industry in which the Group operates, business profile and market environment, impact on the local community and natural environment, and the expectations of the identified stakeholders. The data presented in the Statement will be reviewed and updated in annual reporting periods and regularly published together with annual reports for subsequent financial years. Given the Group's structure and the fact that the majority of its business and operations are carried out by the Parent (the subsidiaries perform auxiliary functions), the description of policies applicable at the Group, as contained in the Statement, also refers directly to policies applicable at the Parent. Where discrepancies occur, a relevant note is added.

The Group and its business model

LW Bogdanka S.A., one of the leading hard coal producers in Poland, is the Parent of the LW Bogdanka Group. The Parent is also a leader of innovation and efficiency in the national mining sector. Given that 99.8% of the revenue of the LW Bogdanka Group is generated by the Parent, while the subsidiaries mainly serve a supportive function in relation to the Parent's basic activities, the business model of the entire Group is determined by the business model of the Parent. Hard thermal coal extracted by LW Bogdanka S.A. is mostly used to produce electricity, heat and cement. LW Bogdanka S.A. is the only hard coal mine in Poland located outside the Upper Silesia region and the only mine extracting coal in the territory of the Lublin Coal Basin.

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

The main source of the Group's revenue is the production and sale of thermal coal. In 2017 the majority of the coal sales (95%) were to several key customers:

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

The majority of the Group's sales (about 85%) are performed within the Enea Group, of which the LW Bogdanka Group is a member.

In addition to LW Bogdanka S.A. ("LWB"), the LW Bogdanka Group comprises Łęczyńska Energetyka sp. z o.o. ("ŁE") and three subsidiaries established in 2013-2014.

Certain in-house functions of the mine were spun off into those subsidiaries, which are wholly owned by LW Bogdanka S.A. The activities of the Group are primarily concentrated in Poland.

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

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

EkoTRANS Bogdanka sp. z o.o. ("EkoTrans"), established in 2013, provides waste management services to utilise waste generated in the course of coal shale washing and purifying, and more specifically waste transportation and logistics services. RG Bogdanka sp. z o.o. ("RGB"), established in 2013, provides services and supplies to, and performs mining and building works for, LW Bogdanka S.A. The most recent subsidiary is MR Bogdanka sp. z o.o. ("MRB"), acquired in 2014, which performs repairs and refurbishments on the ground, including the regeneration and manufacturing of steel structures. This company also provides its services to LW Bogdanka S.A. As the above tasks performed by the companies were previously carried out by the mine itself, the organisational modifications have not significantly changed the environmental impact of the LW Bogdanka Group.

As an entity that mostly deals in coal extraction and sales, the LW Bogdanka Group is placed at the very beginning of the sector's economic path. LW Bogdanka Group's membership in the Enea Group provides opportunities to take advantage of various

synergies (e.g. in 2015 LW Bogdanka S.A. signed a contract for the purchase of electricity from Enea S.A., while in 2017 the takeover by Enea of the Połaniec power plant located in the vicinity of Bogdanka expanded the possibility of securing the sale of coal in the long run). From the perspective of responsibility management, a business model which is so strongly vertically integrated gives extensive control over the social and environmental impacts connected with the creation of economic value.



Employee matters

Personnel Policy

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

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

Group policies on employee-related matters are included in the following documents adopted by the Parent:

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

and in the corresponding documents adopted by the subsidiaries.

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

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

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

Every recruitment process at the LW Bogdanka Group takes place with due regard for the rules of equality regardless of sex, origin, age, beliefs and other factors related to diversity of the employees. Underground and surface employees make up 72.5% and 27.5% of the head count, respectively. Due to the nature of its business and the relevant legal requirements, the Group mainly employs men. The LW Bogdanka Group does not introduce any restrictions on equality in employment, and its current structure results from employees' individual preferences as to the choice of their career.

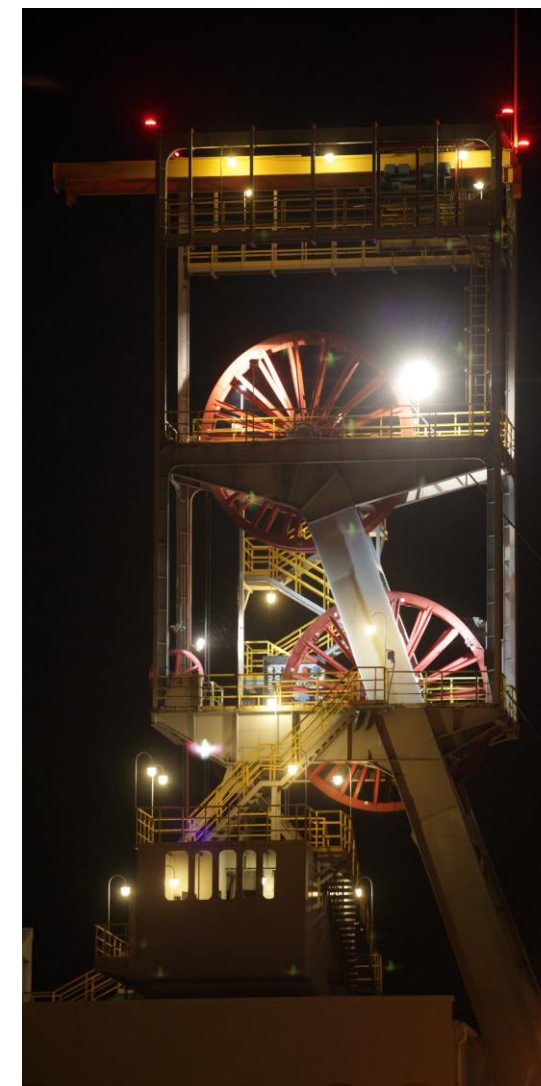
As at 31 Dec. 2018 (by persons)

LW BOGDANKA S.A.	employment contract	civil law agreement
Women	262	10
Men	4,499	87
Total	4,761	97

As at 31 Dec. 2018 (by persons)

LW BOGDANKA GROUP	employment contract	civil law agreement
Women	283	10
Men	5,137	98
Total	5,420	108

*data covers employees whose employment has been temporarily suspended, i.e. parental leave, unpaid leave, rehabilitation benefits.





Employee matters

Generation Change Programme

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

The aim of the Programme was to take early steps to prevent the adverse consequences of natural economic and demographic changes, and implement systemwide solutions in this regard. Current actions will take two or three years to show their potential effects.

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

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

In addition to organising regular meetings with students and graduates and maintaining cooperation, as part of existing programmes, the LW Bogdanka Group initiated in 2018 a new support and incentive programme for future mining staff "Become a Professional - School Today, Success Tomorrow". Moreover, the Company is noticed by prospective candidates by regularly organising student internships and theme

meetings, and by undertaking other initiatives, for example by taking part in job fairs organised by the University of Science and Technology in Krakow. In 2018 the Group organised internships for 145 high school and university students. Furthermore, 56 professional internships were organised.

LW BOGDANKA S.A.	Employed in 2018*	Left 2018*	Employed in 2017	Left 2017
Women	20	7	15	6
Men	413	141	209	209
Employees, breakdown by:				
•employees under 30	250	25	137	14
•employees between 30 and 50	173	61	84	99
•employees above 50	10	62	3	102
Total	433	148	224	215

LW BOGDANKA GROUP	Employed in 2018*	Left 2018*	Employed in 2017	Left 2017
Women	22	10	15	6
Men	807	849	209	209
Employees, breakdown by:				
•employees under 30	510	370	137	14
•employees between 30 and 50	298	397	84	99
•employees above 50	21	92	3	102
Total	829	859	224	215

*in 2018 employment went up (by FTJs) The higher number of people who left the Company in comparison with those who were employed, as shown in the table above, is a result of the manner of presentation - data are shown per person (while some employees in MR Bogdanka work on a part-time basis) and of intragroup changes in the workforce.





Employee matters

Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2018 internal and external training sessions were organised at the Group. Employees take part, out of their own initiative and upon consent of their superior, in external training and conferences.

In 2018 the Parent had in place a LiGa programme, implemented in 2017, under which promising Company employees indicated by the relevant Management Board members are covered by an individual development plan.

The objectives of the programme are as follows:

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

Average number of training hours of employees working under employment contracts

	LWB	RGB	MRB	ŁE	Eko Trans
Women	0.1	10.7	14	8.9	0
Men	15.1	55	18.9	10.2	0

LW Bogdanka Group

Total number of training hours in 2018	Total number of training hours in 2017
116,642	124,644

LW Bogdanka S.A.

Total number of training hours in 2018	Total number of training hours in 2017
93,700	105,385

Additional non-salary benefits

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

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

LW Bogdanka 2018

Funds for the Company Social Benefits Fund [PLN '000]	Funds used	Performed in [%]
21,984.75	17,801.42	80.1%





Employee matters

Management of Occupational Health and Safety (OHS)

LW Bogdanka S.A. is one of the safest mines in Poland. This has been achieved thanks to advanced, often very innovative, technological solutions and well-prepared personnel. Irrespective of the above, however, appropriate procedures and processes need to be developed and implemented to limit the risks and the effects of potentially unforeseeable events. Due to the fact that LW Bogdanka's subsidiaries use the infrastructure of the Parent, any occupational health and safety (OHS) procedures introduced by LW Bogdanka S.A. also apply to the subsidiaries.

Any issues related to OHS management are part of the Integrated Health and Safety, Quality and Environment Management System at the LW Bogdanka Group. Procedures for OHS management comply with OHSAS 18001 and PN-N 18001.

The issues were also considered in the integrated corporate security management system. Although effective, the management systems are continuously improved. The Group is continuously looking for better and more effective solutions by analysing accidents and accident-related events. Moreover, a general safety management system has also been implemented at the mine.

The Group strictly complies with provisions regarding OHS and undertakes preventive measures which include on-going threat monitoring. An obligation imposed in the mine to test the safety of materials and non-current assets in production conditions before the purchase and implementation is also of great importance for everyday safety of the employees. The Group does not merely rely on declarations of manufacturers and vendors, but carries out its own assessments and tests.

Employees may join tests and assessments of personal protective equipment and work apparel. Opinions of staff members have an important influence on decisions as to which equipment should be purchased.

In 2018 the LW Bogdanka Group spent about PLN 128.6 million a year on occupational health and safety (PLN 110 million in 2017). This amount was spent despite relatively good geological conditions and low level of methane hazard. Redefining of individual processes, including automation and mechanisation, contributes to permanently eliminating accidents or limiting the accident rate. A good example may be the use of machines in the process of disassembling longwall headings and removing casings, and securing roof of a coal deposit in wall niches. The use by the LW Bogdanka Group of modern underground machinery and equipment, in addition to increasing the efficiency, means eliminating human presence in the most dangerous places. Important part of equipment are sprinklers – they limit dust thus reducing the threat of explosion and the black lung disease.

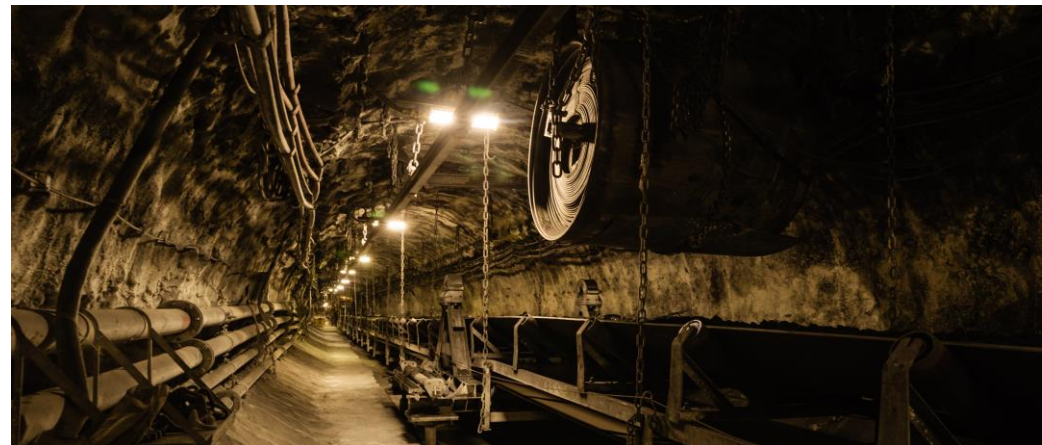
In 2018 the "Work Safety Improvement Programme", implemented in 2017, was continued, and new tasks were introduced. The main tasks in both projects were:

- organising OHS-related and health-promoting events (Safety Week, Health Days)
- developing a programme to enable employees to make suggestions concerning occupational safety
- creating a platform that provides employees with permanent access to selected documents
- developing an "Occupational Health and Safety Handbook" for all the employees
- modification and carrying out the OHS Competition
- Introduction of an information line for the staff regarding accidents at work

- Launch of a broad action of technology control at work stations - 1,300 employees were subject to inspection.

In addition to obligatory periodical first aid training sessions, employees had the chance to take part in training on how to deal with an emergency related to the cardiovascular system. An agreement for a service called "Telecardiogram" is in place in the mine.

All the project assumptions were implemented within the reporting period.



	LW Bogdanka S.A. 2018	LW Bogdanka Group 2018
Number of fatal accidents – total staff	0	1
Number of fatal accidents – subcontractors	0	0
Number of accidents that result in a loss of working time – total staff	1	10
Number of all reported accidents – total staff	102	120
Number of all reported accidents – subcontractors	111	111



Employee matters

Employee-related risks

Generation gap risk

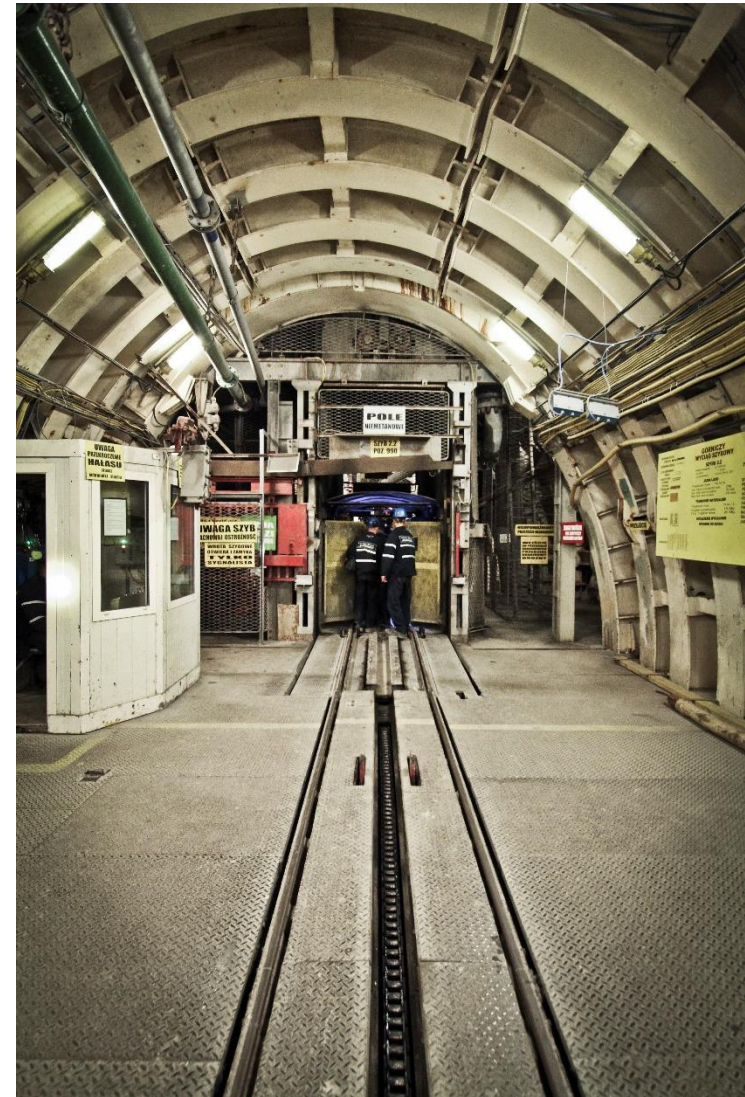
Due to ongoing works on amendments to the Collective Bargaining Agreement which will consider the change of work organisation and remuneration, there is a risk that a larger number of experienced employees entitled to retirement benefits will leave the Group. They are valuable because of their knowledge and experience. Therefore, their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and in turn, disrupt the mild gradual staff turnover. The Company manages the risk by continuously monitoring the employment structure and developing special programmes addressed to current employees and graduates of universities and vocational schools with a specialism corresponding to the Company's activities.



Risk of key employee loss

In order for the Company to run its basic activities, that is to say to produce and sell thermal hard coal, it needs qualified and experienced employees. There are very few experienced and responsible miners on the labour market, especially in the south-eastern Poland where there is only one hard coal mine. Therefore, loss of key specialists in that field poses a substantial risk to the Company's business. LW Bogdanka S.A. manages that risk by offering attractive and motivating work conditions in what the Group sees as its key business areas. These measures are aimed not only to attract prospective employees, but also to promote self-development and qualification improvement among current employees. In addition to remuneration adequate

for the position held and the number of years worked, the Company provides its employees with non-salary benefits set out in the Rules and Regulations of the Company Social Benefits Fund. These include loans granted on preferential terms and subsidies for holidays or sports and cultural events.





Social matters

The dominant values cherished by the LW Bogdanka Group are as follows: honesty, professionalism and responsibility. These values ensure the harmonious development of the Company, which pursues its economic goals in line with social expectations and environmental requirements.

By the end of 2017 the Parent was consistently implementing the "Corporate Social Responsibility Strategy for 2014-2017" which was eventually replaced with a strategy document for 2018-2021. The Strategy preparation process followed a cycle of dialogue sessions with key stakeholders based on the AA1000 standard (March 2018). The updated approach to social responsibility management may be defined in a nutshell as an "Increase in the Company's value and the development of the local community based on the principles of sustainable growth, transparency and education for various groups". Key goals of the Strategy include:

- 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.

The CSR activities are implemented by the LW Bogdanka Group in accordance with recommendations of the PN-ISO 26000 standard which contains Guidance on Social Responsibility, defined as the responsibility of the organization for the impact that its decision and activities have on the society and the environment, through transparent and ethical behaviour in key areas, such as:

- corporate governance;
- human rights
- work practices dialogue session with trade unions
- environment
- fair operating practices;

- consumer-related matters;
- social involvement and development of the local community.



Reporting

In November 2018, the Group published the LW Bogdanka Group's Integrated Report for 2017, developed in line with the reporting guidelines provided for in GRI Standards. The Report includes both financial and non-financial performance, and takes account of parameters specific to the mining industry. The Report for 2017 covered all subsidiaries and presented financial results and social impact. The Report was prepared in its entirety by an interdisciplinary team composed of the mine's employees – this is another step in acquiring skills by the Company in non-financial reporting and pursuance of transparent communication with the stakeholders. This is confirmed by the fact that for a few years now, the Company has been one of the leaders in terms of non-financial reporting, which is confirmed by the awards the Group received in previous years for the best Report in Poland and in Central and Eastern Europe, as well as active participation in the work on an update of the "Handbook for Report Makers" prepared by the Ministry of Development, the Ministry of Finance, CSR Info and a number of partners of the publication.



Management approach

The Integrated Enterprise Risk Management System (ERM) has been in place since January 2018. This system has been implemented as part of the integration process within the Enea Group, in line with the relevant Group regulations, on the basis of applicable "Secondary Documents", including:

- Corporate Risk Management Policy at the Enea Group
- Corporate Risk Management Methodology at the ENEA Group.

Integrated Management System concerning the Quality Management System, Environment Management System as well as the Occupational Health and Safety Management System are in compliance with the following standards: ISO 9001:2015, ISO 14001:2015, PN-N-18001:2004. In May 2018 a recertification audit took place at the Company, following which the team of auditors confirmed that the management system in place in LW Bogdanka operates efficiently, allows it to achieve the set objectives, ensures completion of the pursued policy and the ability to comply with legal, regulatory and contractual requirements. Strengths included the management's involvement in creating rules for the safe organisation of the workplaces and the use of new applications and IT systems.



Social matters

Ethics as component of the organisational culture

"LW Bogdanka S.A. is a company with an extensive organisational culture, an effective ethical programme, a consistent system of values, and, above all, a mission with the common good as its main purpose. The Company's competitive position in the marketplace and the continued growth of trust in the relations with various groups of stakeholders confirm that LW Bogdanka S.A. was right to choose and promote management through values," says dr Monika Baczevska-Ciupak, Department of Ethics, Faculty of Philosophy and Sociology, Maria Curie-Skłodowska University (UMCS) in Lublin.

The Code of Ethics established in 2011 is updated to ensure that it reflects the most recent situation in the Company and in the industry as a whole.

The documents which have been in effect since 2015 are: "Supplier Code of Conduct of LW Bogdanka S.A."; "Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics"; information regarding "Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes of Developing Accident Reports".

In November 2018 Code of Ethics was introduced in the LW Bogdanka Group, and it applies to all subsidiaries. Educational and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the "Bogdanka" corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognised in LW Bogdanka S.A. In 2018, as part of the staff induction training and as part of the occupational health and safety training for team leaders, the Ethics Representative provided training in the Code of Ethics to 335 employees of the Company, including 100% newcomers.

The Ethics Representative will also be involved in the actions carried out in the Compliance field. The Compliance system and procedures are now being implemented at the Company. As part of the Compliance policy internal policies will be implemented and monitored.



Trade Unions

Six trade union organisations operate at the Group, out of which four at the Parent. As at 31 December 2018, the size of the individual trade unions (at the Parent) was as follows:

- "Solidarność" Independent Self-Governing Trade Union – 1,091 members
- Trade Union of Miners in Poland – 1,642 members
- "Kadra" Trade Union – 303 members
- "Przeróbka" Trade Union – 283 members.

In total, 3,319 employees were members of trade union organisations, which constitutes 70% of the total head count at the Company. Cooperation of the LW Bogdanka Group with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.



Social dialogue

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

In 2018 the first cycle of dialogue meetings with stakeholders was carried out for the purpose of evaluating the Company's activities in social, employee, ethics and environmental-related fields. The workshops were attended by almost 150 representatives of various entities, and the meetings were held in Warsaw, Lublin and at the Company's offices (twice).

Furthermore, in 2018 over 20 dialogue sessions with the trade unions were organised to negotiate such issues as payroll or employee retirements plans/employee equity plans (PPE/PPK); 28 meetings of the Social Benefits Commission composed of representatives of the employer and the trade unions, and 2 scheduled meetings of the Conciliation Team for Periodic Assessment of the Impact of Mining on the Surface in the Communes of Cyców, Ludwin and Puchaczów, with the participation of the Director of the Regional Mining Office in Lublin, who chairs the Team.

Collective disputes

On 12 February 2018 trade union organisations instigated collective dispute with the employer as they presented differing positions with respect to the policy of salaries payments at the Company. Following many negotiation and dialogue sessions, on 28 February 2018 an agreement was entered into with trade unions regarding the level of remunerations in 2018. The parties agreed that effective from 1 January 2018 the rates of personal classification of employees would grow by 5%. Furthermore, as at the end of March a one-off incentive bonus was paid (in proportion to work time).



Social matters

Effectiveness of safety management at the workplace

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

The Company maintains a quality management system compliant with the requirements of the relevant reference standards, which has been confirmed by audits carried out in the organisation, including an audit carried out by PRS Certyfikacja S.A. in May 2018.

Several (facultative) OHS solutions were implemented or kept in place in order to improve employee safety at the Company. The most important solutions include: placement of telecardiographs for independent heart rate monitoring across the mine, ensuring availability of a defibrillator and "Kazik" machines for collection of personal protective equipment (PPE), and implementing the "Work Safety Improvement Programme - 2nd edition", which covers a number of measures and events to increase knowledge of OHS, support preventive action and promote initiative to improve the level of safety at the mine, including the "Safer Workplace" and prophylactic programmes. The programme "Safer Workplace! - employee initiatives box" is a programme launched in January 2018 with the main assumption to enable employees to submit their own suggestions and ideas for improvements in the field of occupational health and safety. Importantly, the ideas do not have to be inventive and may concern various aspects of mine work. To submit an idea, a standard form must be completed, and then put in a special box or sent by e-mail.

The proposals are assessed by a committee in a variable composition, appointed on the basis of an expert knowledge key by the Vice-President of the Management Board for Employee and Social Affairs. The initiatives which are positively assessed and approved of by the Management Board are subsequently implemented. Participation in the programme is the simplest way to share one's ideas based on the experience gained while working in the mine. Active participation in the project allows the overarching goal of improving work to be achieved, this ensuring the highest level of safety for the staff.

**TYDZIEŃ BEZPIECZEŃSTWA
1-5 PAŹDZIERNIKA 2018**

POLE BOGDANKA - PLAN WYDARZEŃ:

- 01.10.2018 r. /poniedziałek/**
 - ☒ **3M-6:00 – 14:30** - środki ochrony osobistej, pokazy sprzętu (w tym wirtualnej rzeczywistości)
 - ☒ **Pokaz gaszenia ognia** - plac pomiędzy szybem a narzędziownią
- 02.10.2018 r. /wtorek/**
 - ☒ **Alfa i Omega** - rekawice i ochrona skóry przed substancjami chemicznymi, **6:15 – 6:40 oraz 11:10 – 12:40/** pokazy na Cechowni
 - ☒ **7:10 – 8:00** - rekawice przed substancjami chemicznymi (prezentacja) - Sala KRZG - bhp, POS, dozór, laboratorium
 - ☒ **Strefa wypadku - 8:00-16:00** - symulator dachowania, zderzenia, waga obciążeniowa - parking między Cechownią a stołówką
- 03.10.2018 r. /środa/**
 - ☒ **Fulltech (parking) i Protektor** - od 6:00 - środki ochrony osobistej, zabezpieczenia przed upadkiem, obuwie (lampownia) (Prelekcja - sala obok KRZG)
- 04.10.2018 r. /czwartek/**
 - ☒ **ITURRI - 11.00 – 14.30** - egzoskielety, kamizelki chłodzące;
 - ☒ **Warsztaty „Godzina dla Życia”**, Stowarzyszenie Bezpieczna Lubelszczyzna, ZPAMI (sala Koni), Godz.: 8:00-9:00; 9:15- 10:15; 10:30 - 11:30;
- 05.10.2018 r. /piątek/**
 - ☒ **9:00 - Pracujmy bezpieczniej** - spotkanie uczestników Programu Inicjatyw Pracowniczych „Pracujmy bezpieczniej” z Ewą Pietsną Zarządcą, wreczenie spominków, pokazy z zakresu bezpieczeństwa (opiekowanie w Bogdancie - Biuro Zarządu, na zaproszenie);

UWAGA
W ramach wydarzenia ogłosimy konkurs rysunkowy dla dzieci pracowników LWB: „Mamo, tato - Pracuj bezpieczniej!”

Close to nature

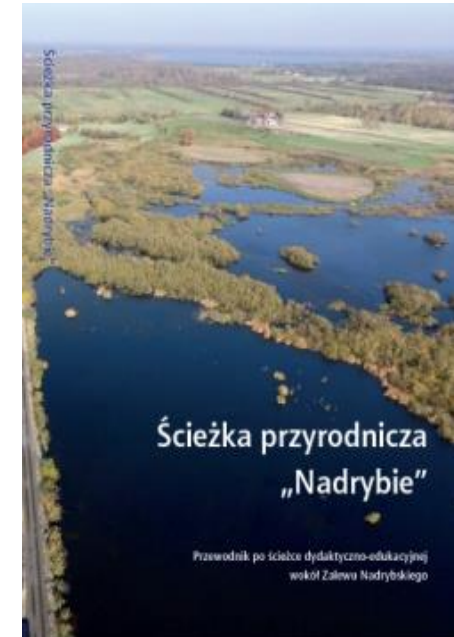
Effective environmental management is based on the Integrated Health and Safety, Quality and Environment Management System. It complies with PN-EN ISO 9001:2015, PN-EN ISO 14001:2015, PN-N-18001:2004 and, additionally, as regards health and safety, with the British standard BS OHSAS 18001:2007.

Since 2015, the Company, in cooperation with the Polish Society for the Protection of Birds (OTOP), has promoted the new "Nadrybie" educational path. It runs around the Nadrybie Lake – and artificial reservoir created as a result of mining works. The "Nadrybie" path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value which is protected by the Natura 2000 network.

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

Since 2018 the LW Bogdanka Group has been supporting OTOP in a project pursued with a view to strengthening south-eastern metapopulation of aquatic warbler by reshaping habitat conditions, appropriate for the birds, on previously inhabited areas or areas where this species may occur. The above will result in improving migration corridors of metapopulation of aquatic warbler in the Lublin province, creating and retaining the system of stepping stone habitats between the areas inhabited by the aquatic warbler and reinforcing main wildlife corridors, i.e. south-central and eastern ones.

As part of the projects the water level in the region of Krowie Bagno (in Polesie, in the vicinity of the former agricultural entity, PGR Krychów) will be subject to regulation and stabilisation works. For this purpose, water gates will be installed on drainage ditches for the disappearing Łaskie lake and the molinion meadows in its direct neighbourhood. Plans include the construction of three water gates for meltwaters to be stopped and accumulated, and water to be stopped in the spring season and at the beginning of summer.





Social matters

Relations with the local community

From the very beginning of its existence, the LW Bogdanka Group has been supporting its immediate surroundings and the local community, inter alia, by subsidising a range of local social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community. The Group also sponsors sporting and cultural activity. In 2018 the Parent gave donations and in-kind contributions for a total amount of PLN 395,000 towards the Children's Hospital in Lublin, the Volunteer Fire Brigade in Kaniwola and support centres in the Lublin Province, among others.



Inter-Sector Cooperation for Life and Health

An agreement in effect in 2018 was signed by the following entities: LW Bogdanka S.A., the Solidary Miners Foundation, and the Regional Blood Centre in Lublin. The trilateral agreement is dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donor bank.

The goal of the agreement is to conduct an education and volunteer program consisting in the Company's staff and the local community becoming involved in blood and bone marrow donation campaigns. This is the first initiative of this kind in the region, combining the efforts of the public, business and non-governmental sectors to support the noble idea of blood and bone marrow donation and transfusion. In 2017 two blood and bone marrow donation actions were organised on the premises of the mine, the idea of blood donation was promoted, information and educational materials were regularly distributed, and a celebration was held to mark the 36-anniversary of the establishment of Z. Gola Honorary Blood Donors Club of the Polish Red Cross in Bogdanka.



Cooperation with mining schools

Since 2017 the Group has cooperated with schools that hold classes with a specialism in mining: The Mining School Complex in Łęczna and the School Complex in Ostrów Lubelski.

The signed arrangements concern future employment opportunities at the Bogdanka mine offered to outstanding graduates of the schools (the "Permit to work at LW Bogdanka S.A." programme), and a scholarship fund established to motivate students to work efficiently and effectively to prepare themselves for the mining profession.



The Solidary Miners Foundation

The Solidary Miners Foundation which operates at the LW Bogdanka Group addresses the needs of the Company's mining environment and the needs of the local mining environment.

The Foundation provides help to miners in need (e.g. following an accident), and to miners' families that for various reasons have found themselves in difficult life circumstances, especially those who suffer from poverty or those who need ad-hoc support. The Foundation also responds to the needs of children raised in dysfunctional and poor families. The Foundation supports and promotes the development of talented young people from the local community. In Autumn 2016 the Foundation obtained the status of a public benefit organisation, which proves its strong commitment and effectiveness when it comes to accomplishing social benefit objectives. This has enabled the remittance of 1% of tax to the Foundation.

Acting with an aim to fulfil its statutory objectives, the Foundation has subsidised surgeries, medical procedures, treatment, and rehabilitation, purchase of medical equipment and devices (a wheelchair, equipment for testing vibrations, a defibrillator, a lift for a disabled person, barrier-free environment, etc.) and access-friendly infrastructure (such as bathrooms and barrier-free architecture) for the disabled. In 2018, the costs of activities set forth in its by-laws amounted to almost PLN 370,000 (in 2017 - PLN 210,000), which included:

- medical treatment and rehabilitation – 39%
- social allowance – 29%
- purchase of medical equipment – 17%
- scholarships for good marks at school – 8%
- other financing – 7%.





Social matters

CSR initiatives carried out in 2018

First aid workshop - the invited medical rescue workers, at each of the mining fields, trained the staff of the Parent and its subsidiaries to equip each employee of the mine in knowledge how to give first aid and behave adequately in a life threatening situation.



C-Zone Education – there is a dedicated educational zone at the mine, where the Company's employees provide the stakeholders (mainly children and youth) with the information about the traditions, customs and the characteristics of work at the mine. In 2018 almost one thousand people visited the C-Zone.



Health Zone, Ecology Zone and Safety Zone in the employee feasts – each event organised by the Company has educational components and promotes correct behaviour, prevention and safe conduct at work or on the road.



Cooperation with the Occupational Therapy Workshop in Janowica, whose participants regularly display their artistic creation at the mine and during the Christmas season organise handicraft fair.



Prevention for the Group's employees and stakeholders – the LW Bogdanka Group got involved in partnership programmes promoting prevention, including skin disease prophylaxis or lyme disease test programme. For more impact, all educational actions and tests took place in Bogdanka.



The "Mom, Dad - Work Safer!" is an initiative to engage employees' children in the issue of work safety. The young participants activated their parents to keep the highest level of safety and exercise care in the health and OHS areas.



Each year the LW Bogdanka Group gets involved in initiatives that increase the knowledge and improve skills related to first aid. An example of such an initiative is the "Young Rescuers" contest, organised every year at the Jan and Kazimierz Bogdanowicz School Complex in Nadrybie for students of schools in the Poviatic.





Social matters

Employee's involvement in social initiatives

Charity fundraising on Bogdanka's premises – in 2018, there were several charity events organised to support the people in need. Above all, support was provided for actions initiated by the employees. This was done by means of donations, in-kind contributions and organisational support.



Positive Twist – a permanent campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 12 months we collected several hundred kilograms of plastic caps. The action has become a permanent and popular event organised at Bogdanka. It makes everyone realise that simple habits, such as collecting plastic caps, can help achieve great charitable purposes.



Gold Rush – the project involves "getting rid" of small coins (1, 2, and 5 grosz) sitting in the wallet. Participation in the project is the initiative of the mine's Z. Gola Honorary Blood Donors Club of the Polish Red Cross.



AGH students get oriented in the CSR - Responsible Business Conference. The Company's involvement in organising the Responsible Business Conference was an example of its volunteer sharing of its knowledge and know-how with the interested parties.



Awards and accolades

"Health Days at LW Bogdanka" as well as three long-term internships: lessons on ecology organised in the Nadrybie Educational Path, the intra-sectoral partnership for the promotion of blood donation and Safety Week – these are the best long-term practices related to CSR recognised in the Report titled "Responsible Business in Poland. Best Practices 2017" prepared by the Responsible Business Forum.



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



Award of the Association of Individual Investors for the highest level of investor relations addressed to individual investors. The award was presented during the annual Wall Street conference in Karpacz.



Award "The one that changes the Polish industry" – for the fact that due to rational investment decisions it constitutes a model of management efficiency and it is resistant to economic fluctuations.



For its achievements in this field, LW Bogdanka S.A. was awarded the CSR White Leaf by the *Polityka* magazine.



Recognition in the 2018 Responsible Companies Ranking (in Top 10 of this prestigious ranking for the first time).





Social matters

Membership in organisations, participation in industry initiatives

górnictwo 

EURACOAL (The European Association for Coal and Lignite)

EURACOAL
European Association for Coal and Lignite

CSR Trends Monitorir Team at the Ministry Economy



School of Underground Exploitation

WIZJA
WIZJA ZRÓWNOWAŻONEGO ROZWOJU DLA POLSKIEGO BIZNESU

Vision of Sustainable Development for Polish Business (Vision 2050)

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



ANALIZA ESG SPOŁEK W POLSCE



Raportowanie danych niefinansowych ESG, a odpowiedzialne inwestowanie. Przewodnik dla spółek i inwestorów



Polish Association of Listed Companies



Akcyonariat Obywatelski

Civic Shareholding. Invest Consciously



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



LW Bogdanka – Investor Friendly Company

Participation in the “ESG Analysis of Polish Companies” project with respect to non-financial ESG (Environment, Social, Governance) disclosures of listed companies

The “ESG Analysis of Polish Companies” project organised by the Polish Association of Listed Companies and Crido Business Consulting enables Polish issuers to check how they are judged in the context of non-financial ESG disclosures. They relate to the environmental protection, social responsibility and corporate governance. The study also makes it possible to draw comparisons within a certain industry. In 2017 LW Bogdanka S.A. once again took part in that project.

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

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

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





Social matters

The below data on LW Bogdanka S.A. and subsidiaries' expenses on the actions described below are of marginal nature.

Sponsoring, CSR and promotion [PLN '000]	2018	2017
Promotion, CSR	946.9	477.6
Sports sponsorship	6,524.5	5,564.5
Social/cultural sponsorship	386.1	186.6
Total	7,857.5	6,228.7

Donations [PLN '000]	2018	2017
Donations	398.9	407.8

Donations [entities]	2018	2017
Beneficiaries of the donations fund of LW Bogdanka S.A.	36	40

Risks associated with social matters

Risk associated with the strong position of the trade unions

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently deciding on renegotiations of wage policy through protest actions. As at the day of submitting this Report, 6 trade union organisations operate at the Group, associating more than a half of all 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 operating in the Company could affect the operating activities conducted by LW Bogdanka S.A.

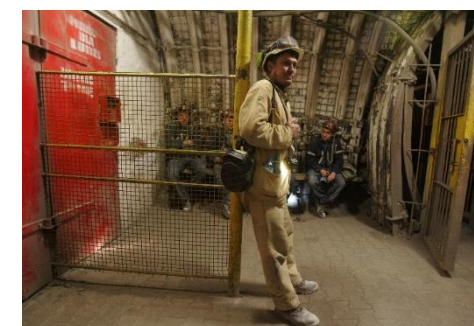
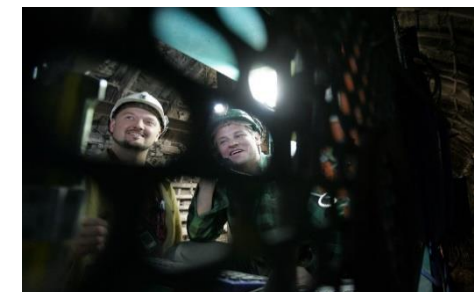
The Group manages the risk through cooperation and permanent constructive dialogue with the representatives of the Trade Unions as well as through talks and negotiations in situations of potential conflict. In 2018 over 20 dialogue sessions with the representatives of the social partners were organised.



Risk of conflict with the local community

Any production plant engaged in transmission activities generates emissions and exerts an impact (mining damage). This may be a burden for the local community residing in the vicinity of the plant. Mining activities have a major impact on the surrounding areas. Such impact manifests itself, among other things, in ground settling and local flooding. Such a situation may cause dissatisfaction or protests of the local inhabitants.

The Group manages the risk by strictly complying with the environmental protection laws and undertaking own initiatives aimed at reducing the impact that the Group exerts on the natural environment (e.g. projects related to the protection of biodiversity in the mine's neighbourhood). In addition, the Group compensates losses, if any, incurred as a result of its activities by facilitating the process of filing claims related to mining damage (e.g. online forms). What is more, the Group organises socially-oriented events to compensate for the inconvenience it causes to the local community. The fact that the Group is the largest employer in the region, offering stable employment conditions, helps to build the mine's positive image in the Lublin area.





Environmental matters - Location of the LW Bogdanka Group

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

The immediate vicinity features:

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

The eastern part of the newly-created Ludwin mining field covers large areas of the Łęczna Lake District Landscape Park. The Brzeziczno Lake Reserve together with the separated Nature 2000 site are also located within the boundaries of the Park.

The connected mining areas, in their central and eastern parts, overlap with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 60009). This region is also a part of the "West Polesie International Biosphere Reserve". The Polesie Protected Landscape Area is located in the east, while in the south-east there is the Chełm Protected Landscape Area.

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





Environmental matters

Air protection

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

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

- rock mass draining at working sites
- use of underground water for fire and process purposes
- pumping water to the surface
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczynska Energetyka Sp. z o.o. - as part of Water Treatment Station operations)
- retention of mine water in a surface sediment tank in order to reduce suspension
- discharge of water from tank through a drench system and the Rów Żelazny ditch into the Świnka River in the amount of about 14,957 m³/day.
- the content of chlorides and sulphates in mine water is 990 mg/dm³.

Waste management:

- in 2018, total mining waste amounted to 6,646,200 tonnes,
- approximately 47% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 3,093,100 tonnes,

- 97% of waste is used for the purpose of rehabilitation of degraded land and land suffering from mining damage. It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.
- other post-mining waste (3,553,000 tonnes) is stored at the mining waste neutralization facility in Bogdanka.
- The Parent manages other post-industrial waste by contracting to authorised entities the treatment of reusable waste (waste wood, used oil, scrap, conveyor belt off-cuts etc.) and waste which cannot be reused (used light sources, adhesive and paint containers, etc.).

Reclamation

- In 2018 reclamation works were started on the areas which suffered mining damage in Nadrybie Wieś. The works consist in the construction of fish pond and heightening the level of ground with the use of mining waste, covering it with soil and planting trees. They are scheduled for completion in autumn 2019.
- maintenance works are performed on an ongoing basis with respect to the greenery, a facility used as a mining waste dump, previously-remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

Surface protection

- the influence of mining works performed in 2018 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact
- maximum soil subsidence within the "Puchaczów V" mining area remain within the area of the village of Bogdanka and Nadrybie Wieś, Puchaczów commune, at a level of 5.0 m in the

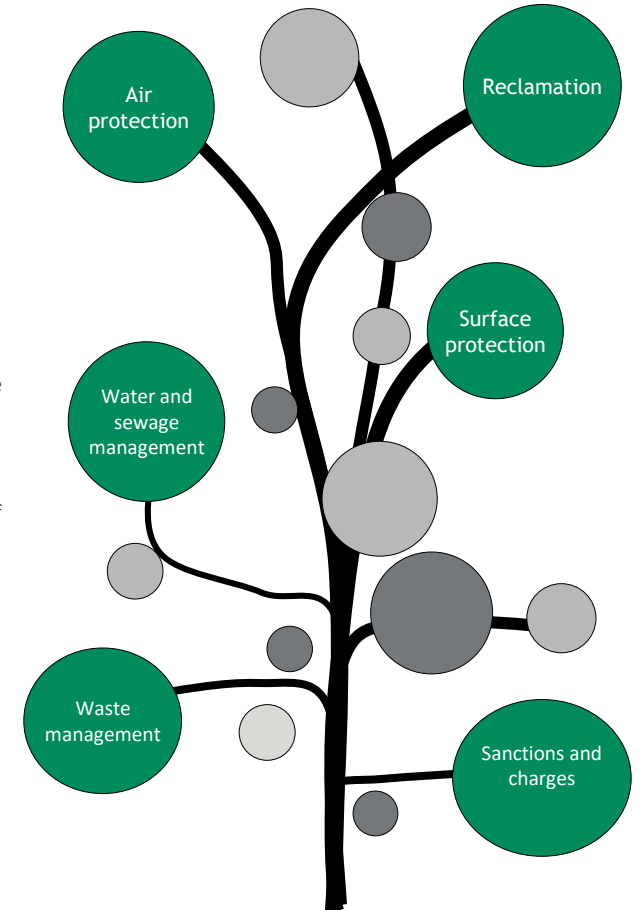
- central part of the settlement basin in this region
- damage to buildings in 2017 – as to date – were primarily related to rural buildings. The reported damage to those buildings did not pose any threat to their users and was removed on an ongoing basis
- the costs of removing damage caused by mining in 2018 amounted to a total of approx. PLN 5.37 million.

Environmental protection sanctions and charges to which the Parent is exposed

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

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

The Parent complies with environmental standards, and did not incur any penalties in 2018 for violation of environmental rules laid down in the applicable laws.





Environmental matters

Key ratios

Electrical energy consumption [MWh]

LW Bogdanka S.A.		LW Bogdanka Group	
2018	2017	2018	2017
334,818	320,521	340,823	326,444

Water consumption [m³]

LW Bogdanka S.A.		LW Bogdanka Group	
2018	2017	2018	2017
8,039,967	7,411,852	10,770,192	7,537,504

LW Bogdanka S.A.	2018		2017	
	Production	Recovery	Production	Recovery
Excavation waste	6,646.2	3,093.1	5,693.7	2,682.7
Post-industrial waste	19.1	19.1	18.1	18.1

Environmental protection at LW Bogdanka S.A. [PLN '000]

	2018	2017
Waste utilisation	36,729.0	33,269.0
Protection costs (remediation, monitoring, etc.)	3,985.7	1,990.0
Charges for the economic use of the environment	451.5	399

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

The operations of the LW Bogdanka Group 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), including in particular:

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

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



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

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

On the basis of a building permit, the Company has commenced works connected with increasing the height of the existing yard (to 250 MASL) and expanding the yard to the east, as well as it undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment may entail the risk of disrupting the stability of the extraction process.

Countermeasures: The Company performs works connected with increasing the height of the existing mining waste utilisation facility and expanding the area to the east. Further, it continues works on

acquiring new land to execute the next phases of extension of the yard.

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



Investment risks associated with protected areas

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

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

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





Human Rights matters

Respect for human rights

Respect for human rights is a strict obligation of every organisation and its employees. This obligation results from the legal system applicable in the United Nations (Universal Declaration of Human Rights), the European Union (European Convention on Human Rights) and in Poland, especially the Constitution of the Republic of Poland, which guarantees respect for human rights and civil rights, including:

- right to freedom (Article 31)
- equality before the law and non-discrimination (Article 32)
- equality before the law irrespectively of sex (Article 33)
- right to privacy (Article 47)
- freedom and integrity of the person (Article 41)
- freedom of religion and belief (Articles 53-54)
- freedom of assembly and association (Articles 57-59).

At LW Bogdanka S.A. issues related to the respect for human rights are regulated in internal documents, including:

- Code of Ethics
- Supplier Code of Conduct of LW Bogdanka S.A.
- "Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics"
- CSR Strategy.

In addition, the Group's activities with respect to social responsibility are compliant with the Sustainable Development Goals (SDGs), including with the fifth goal, which provides for equality irrespective of sex.

By developing and adopting the above-mentioned regulations, the Company has undertaken to respect human rights and to actively promote such rights. In a situation where such rights are violated, appropriate measures are undertaken to immediately change the negative situation.

Just like in the majority of companies, in the case of relations between employees, it is of utmost importance to make sure that human dignity is respected and to counteract discrimination. Pursuant to the Code of Ethics applicable at the Company, any forms of discrimination, both direct and indirect, abuse or harassment are absolutely inadmissible and unacceptable at the LW Bogdanka Group. Every employee is obliged to counteract any discriminatory acts and strongly protest against such acts.

Every new employee is informed of the Code of Ethics during induction training. All employees are familiarised with the contents and mechanisms described in the code - all of them (100%) received a hard copy of the Code and signed it for confirmation.

Moreover, the Company has adopted the "Policy for determining the procedure and manner of organisation of training and surveys and dissemination of knowledge in the area of compliance with and promotion of principles of the Code of Ethics and prevention of frauds at LW Bogdanka S.A." The Policy was prepared in consultation with Heads of the Human Resources Management Department, the Marketing and PR Department and the Audit and Internal Control Department to regulate the procedure for training in values and ethical standards.

In addition to training, measures are undertaken with a view to promoting ethical behaviour and preventing any situations where human rights could be violated. Such measures are also supported by internal communication channels such as the Company's website, information boards spread throughout the premises of the mine, roll-ups, banners, internal and local magazines, and other channels which prove most effective under given circumstances.

In 2018, as part of the staff induction training and as part of the occupational health and safety training for team leaders, the Ethics Representative provided training in the Code of Ethics to the total of 335

employees of the Company, including 100% newcomers. Further, the Ethics Representative prepared for all employees an opt-in training session (July 2018) about mobbing and discrimination along with practical examples, images etc. and an exemplary test to be taken voluntarily and repeatedly. The training was described in the Company's intranet.

The Ethics Representative monitors compliance with the Code of Ethics and the resulting human rights regulations. The Ethics Representative reports directly to the Vice-President of the Management Board for Employee and Social Affairs. The Ethics Representative is responsible for developing the documents and training referred to above and actively participates in their implementation and enforcement. The Ethics Representative's task is to proactively monitor instances of potential violation of the Code of Ethics, look for solutions to any problems that may appear. Each month the Ethics Representative provides a report to the Vice-President of the Management Board for Employee and Social Affairs (responsible for the supervision of issues related to ethics management), about problems which had occurred and how they were resolved.

Employees may, or even are obliged to, report instances of potential in compliance or unethical behaviour. The employees may contact the Ethics Representative in person, or by phone, post or e-mail. Moreover, the employees are welcome to use mail boxes located in all three mining areas and in the Management Board building. In this way, the employees may remain anonymous.

Since 2014, bidders wishing to cooperate with the Company must submit statements on compliance with the rules of ethics, human rights, environmental protection and labour law, including health and safety.

Any contracts entered into by the Company contain relevant provisions, including permission for an audit to be conducted by or on behalf of LW Bogdanka S.A. In 2018, statements relating to such matters as respect for human rights were submitted in all (100%) tender procedures (except for small procedures carried out without tender where such statements are not required).

Moreover, a document titled "Supplier Code of Conduct of LW Bogdanka S.A." has been in force at the Company since 2015. The Code regulates matters related to:

- observance of the law, including respect for human rights,
- prevention of discrimination,
- relations in the workplace,
- occupational health and safety,
- natural environment protection,

It is expected of the subcontractors working in LW Bogdanka S.A. that their employees comply with the Code of Ethics applicable at the Company. They may also provide information on any potential infringement of the Code.

Total number of incidents of discrimination (at the workplace) in 2018

Total number of incidents of reported infringements – complaints and reservations regarding a failure to observe the Code of Ethics in 2018

0

0



Human Rights matters

Key indicators (LW Bogdanka S.A.)

Agreements with human rights respect clause [%] **2018**
Share of agreements with human rights respect clause 100%

Employee training [number of people] **2018**
Number of employees who were given training in the respect for human rights 335

Penalties for infringement of human rights and employee rights [PLN] **2018**
Total value of penalties imposed on the Company for infringement of human rights and employee rights 0



The LW Bogdanka Group strictly complies with the provisions of Polish law, including those concerning the respect for human rights, which is guaranteed under the Constitution and the relevant acts of parliament. Irrespective of the above, the scale of the Company's activities and a substantial number of employees are factors which may entail the risk of an infringement of human rights, especially in the area of dignity and respect for the rules of diversity. Despite the fact that additional internal regulations have been introduced in that respect (Code of Ethics) and numerous educational campaigns have been carried out, the Group has limited influence on discriminatory incidents among employees. The Group manages the risk by continuously monitoring any incidents of human rights infringement and by organising the relevant training sessions and information campaigns. Ethics Representative has been appointed at the Parent to ensure compliance with the Code of Ethics at the Group. All employees who have been discriminated against or have witnessed any discriminatory incidents may seek support from the Ethics Representative and enforce their rights in that respect.





Anti-corruption matters

Anti-corruption measures

Just like in the case of matters related to the respect for human rights, the anti-corruption policy is mainly included in the Code of Ethics. In addition to the above-mentioned code, the issue in question is addressed in the following documents:

- "Fraud Prevention and Fraud Risk Management Policy was introduced at LW Bogdanka S.A."
- "Guidelines on Accepting and Handing Gifts at LW Bogdanka S.A."

The Code of Ethics adopted at the LW Bogdanka Group at the mine sets out ethical values and principles which should be followed in the Company, and presents, in an intelligible manner, any potential undesirable situations. The Code addresses matters related to non-competition, conflict of interest, as well as anti-bribery and anti-corruption measures.

Ethical standards described in the Code of Ethics applicable at the LW Bogdanka Group define Corruption as an act (action) which is strictly prohibited for all the employees, irrespective of their position within the organisational structure. Under the Code, corruption is an action which involves the following:

- promising, proposing or providing by any person, directly or indirectly, any undue benefits to an employee – irrespective of their position and function at the Company – or to any other person, in exchange for an action or omission in the context of their professional duties
- demanding or accepting by a Company employee, directly or indirectly, any undue benefits, for the employee or for any other person, or accepting offers or promises of such benefits, in exchange for an action or omission in the context of their professional duties

- abuse of powers or failure to comply with the obligations by a Company employee resulting in damage to the Company's interest, committed in order to obtain any undue benefits for the employee or for any other person.

The Group has also introduced Guidelines on Accepting and Handing Gifts. It is prohibited to accept and provide gifts other than advertising gadgets.

Designated Company employees (including Management Board members and employees of promotion-related departments) may only provide and accept minor gifts such as promotional and advertising gadgets (usually objects marked with a brand logo or an advertising slogan) which are commonly exchanged in business relations (e.g. a calendar, notebook, pen or an invitation to a customary meal), with a proviso that such a gift may not have an influence on any decision on whether to establish and how to develop cooperation with an entity represented by the person who has provided or the person who has accepted the gift.

An issue that is very similar to the subject of corruption is the concept of a conflict of interests. A conflict of interests may result from personal relations, financial relations, additional activities of an employee or other commitments that may affect impartiality during a decision-making process regarding the choice of a potential business partner for the Company. Such matters are also regulated in the Group's policies.

Every new employee is informed of the Code of Ethics during induction training sessions, receives a copy of the Code, and fills in a Conflict of Interest Report which is subsequently provided to the Director of the Management Office.

Just like in the case of respect for human rights, the person responsible for monitoring and managing anti-corruption matters in the Ethics Representative. The Audit and Internal Control department serves an auxiliary function in this respect.

In 2018, the Ethics Representative did not record any instances of abuse. It is important that employees maintain integrity in different areas of our business, report and resolve borderline situations, apply high moral standards, etc. in order to eliminate any conflicts of interests, etc., build a positive image of the Company, show good manners and maintain mutual trust, in both personal relations and in the workplace.

Key ratios

Corrupt practices [number]	2018
Number of confirmed instances	0
Anti-corruption training [%]	2018
Share of employees who were given anti-corruption training	100%
Percentage of employees who were informed of the anti-corruption policies and rules	100%
Training in corruption and abuse prevention	Two-day training on "Corruption Risks"

Anti-corruption risks

Risk of corruption incidents among Company employees

It is unacceptable that any actions take place at the LW Bogdanka Group that have any characteristics of corrupt practices or that any situations occur that raise doubts as to the impartiality of the employees during the process of granting contracts. Irrespective of the procedures and regulations adopted by the Company in that respect, there is a limited risk that situations related to corruption may occur.

Employees that are highly vulnerable to such situations are those who work in departments with direct contact with the representatives of external entities that may derive specific economic benefits as a result of establishing cooperation with the Company.

The Company manages the risk through various of internal regulations and procedures under which the employees are obliged to maintain impartiality while performing their professional duties and prohibited from accepting and economic benefits from external entities. Training sessions in that regards are also organised. In addition, the relevant internal units (Audit and Internal Control Department and Ethics Representative) carry out periodical audits and inspections.





Glossary



- **CSR** – Corporate Social Responsibility
- **Net debt/ EBITDA** – product of net debt (i.e. the total current and non-current liabilities less cash and equivalents) to EBITDA
- **EBIT** – earnings before interest and taxes
- **EBITDA** – EBIT increased by depreciation and amortization and impairment losses
- **Fairness opinion** – a report from the valuation of a business, a statement certifying that the price of a given transaction is fair
- **GRI** – Global Reporting Initiative
- **Audit Committee** – a team within the Supervisory Board responsible for overseeing the company's financial reporting
- **PTE** – Technical and Business Plan
- **LWB** – Lubelski Węgiel Bogdanka S.A.
- **IFRS** – International Financial Reporting Standards
- **Extraordinary General Shareholders Meeting** – Extraordinary General Shareholders Meeting of LW Bogdanka S.A.
- **NFOŚiGW** – National Environmental Protection Fund
- **OUG** – Regional Mining Authority
- **PFRON** – the National Fund for the Disabled
- **PGG** – Polska Grupa Górnicza (Polish Mining Group)
- **Supervisory Board of LWB** – Supervisory Board of LW Bogdanka S.A.
- **Gross margin on sales** – the rate of return on sales calculated by dividing the profit by the volume of sales
- **EBITDA margin** – operating profit plus depreciation and amortization to total revenue
- **EBIT margin** – ratio of EBIT calculated for a period and the revenue from the sales of the period
- **Gross margin** – ratio of gross profit (before taxes) and net sales
- **Net margin** – ratio of net profit and net sales
- **Return on Assets (ROA)** – ratio of a company's net profit to the value of its assets
- **Return on Equity (ROE)** – ratio of net profit to equity
- **Respect Index** – an index of socially responsible companies
- **SIN** – Non-Financial Information Standard
- **SRK** – Spółka Restrukturyzacji Kopalń S.A.
- **WFOŚiGW** – the Provincial Fund for Environment Protection and Water Management
- **Debt ratio** – ratio of total liabilities to total assets
- **Debt to equity ratio** – ratio of total liabilities to equity
- **Non-current assets to equity ratio** – ratio of the sum of equity, non-current liabilities, non-current accruals and non-current assets
- **Current debt ratio** – ratio of current debt to total assets
- **Non-current debt ratio** – ratio of non-current liabilities to equity
- **Current liquidity ratio** – ratio of current assets and current liabilities
- **Quick liquidity ratio** – define a company's ability to meet its short-term obligations with its most liquid assets

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