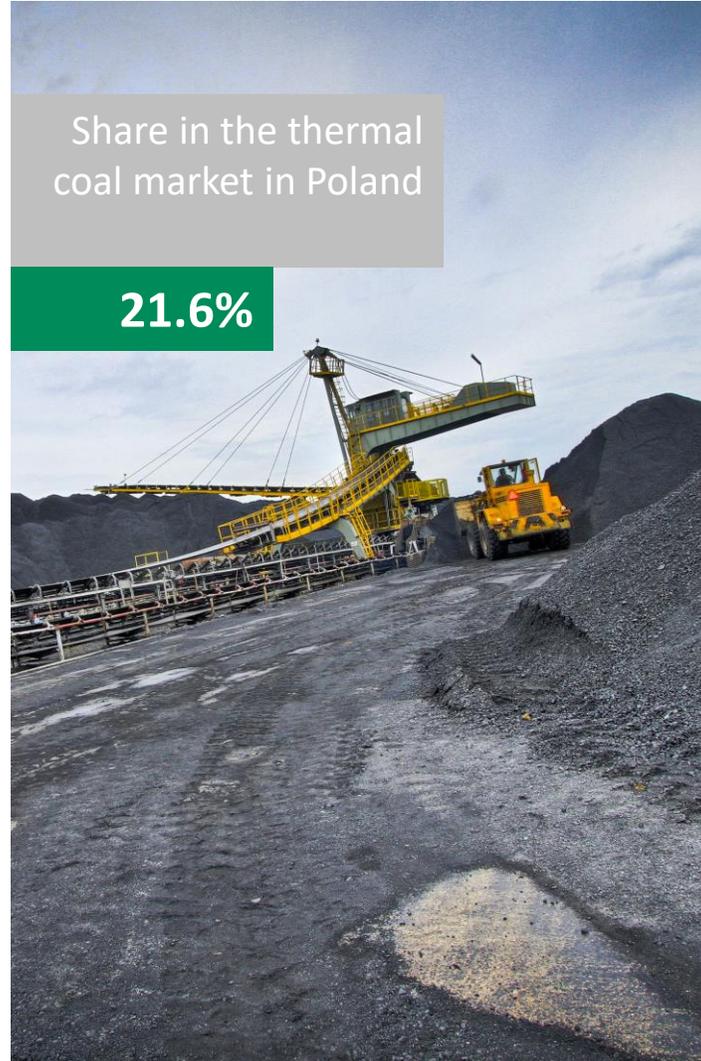




Directors' Report on Operations of the
LW Bogdanka Group for the first half
of 2019





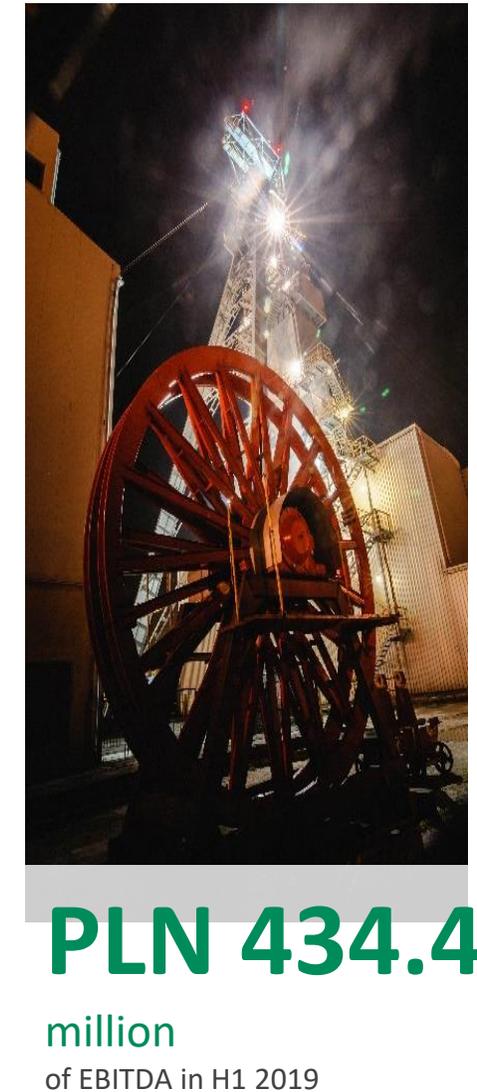
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Summary
of operations

1





Key events in the first half of 2019 and events until the publication date

Q1 2019

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.

Q2 2019 and events until the publication date

Decrease in TFI PZU S.A. investments funds' share below 5%

On 9 April 2019, the the Management Board of LW Bogdanka S.A. was notified by Towarzystwo Funduszy Inwestycyjnych PZU S.A. (TFI PZU S.A.) that the investment funds managed by TFI PZU S.A. decreased their share in the total vote at the Company's General Shareholders Meeting below 5%.

Release of provision for ZUS claims related to contribution for accident insurance

On 24 April 2019, the Management Board of LW Bogdanka S.A. was informed that the Supreme Court had, on 4 April 2019, issued a judgement regarding cassation appeal filed by the Social Insurance Institution, Branch in Lublin regarding the Company's appeal from ZUS's decision defining the percentage rate of a contribution for accident insurance.

The Supreme Court rejected the cassation appeal,

therefore the judgement, advantageous for the Company, issued by the Court of Appeal on 21 November 2017, became final and the claim was finally rejected. The pending case was notified by the Company in its periodic reports.

On this basis, having determined the impact and type of the abovementioned event after the balance-sheet date on the interim consolidated financial statements of the Group, the Management Board of the Company decided to release the provision in the amount of PLN 22.7 million (PLN 16.4 million - the principal amount, PLN 6.3 million – interest), which was announced by the Company in Current Report No. 6/2019.

Concluding an Annex with Enea Elektrownia Połaniec S.A. with provisions for 2021

On 30 April 2019, an annex to the Long-Term Agreement on sale of thermal coal No. 3/W/2012, was signed by the Company and Enea Elektrownia Połaniec S.A. As a result of concluding the Annex, the parties decided to apply a price formula for the period 2018-2020, serving for setting the price of coal supplies, also in 2021.

Given that the parties have made the abovementioned arrangements before 30 June 2019, the condition subsequent, notified by the Company in current report No. 37/2016, was deleted from the Agreement.

Recommendation of the Management Board regarding payment of dividend from the 2018 net profit

On 14 May 2019, the Management Board of LW Bogdanka S.A. adopted a resolution on a motion to the General Shareholders Meeting regarding distribution of net profit for 2018 and

payment of dividend for the shareholders of the Parent. In accordance with the resolution the Management Board recommends to allocate the amount of PLN 25,510,192.50 to dividend, which represents PLN 0.75 per share. On 15 May 2019, the Company's Supervisory Board positively assessed the motion of the Management Board.

Appointment of the Management Board of LW Bogdanka S.A. to the new term of office

On 15 May 2019, the Company's Supervisory Board adopted resolutions on the re-appointment of the existing members of the Company's Management Board to the new term of office.

Convening the Annual General Shareholders Meeting of LW Bogdanka S.A.

On 17 May 2019, the Management Board of LW Bogdanka S.A. convened the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. to take place on 18 June 2019.

Adopting a resolution regarding payment of dividend from the 2018 profit

On 18 June 2019, the Annual General Shareholders Meeting adopted a resolution on distribution of net profit for 2018 and payment of dividend. The net profit generated by the Company in 2018 amounting to PLN 51,596,697.12 was distributed by the Annual General Shareholders Meeting as follows:

- the amount of PLN 25,510,192.50 – to a dividend, i.e. PLN 0.75 per share
- the remainder, i.e. PLN 26,086,504.62 – to the Company's reserve capital.

Further, the Annual General Shareholders Meeting scheduled the dividend date for 9 July 2019, and the

dividend payment date for 23 July 2019.

Convening the Extraordinary General Shareholders Meeting of LW Bogdanka S.A.

On 25 June 2019, at the request of the shareholder, Enea S.A., an Extraordinary General Shareholders Meeting of Bogdanka S.A. with registered office in Bogdanka, was convened and scheduled to take place on 25 July 2019.

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

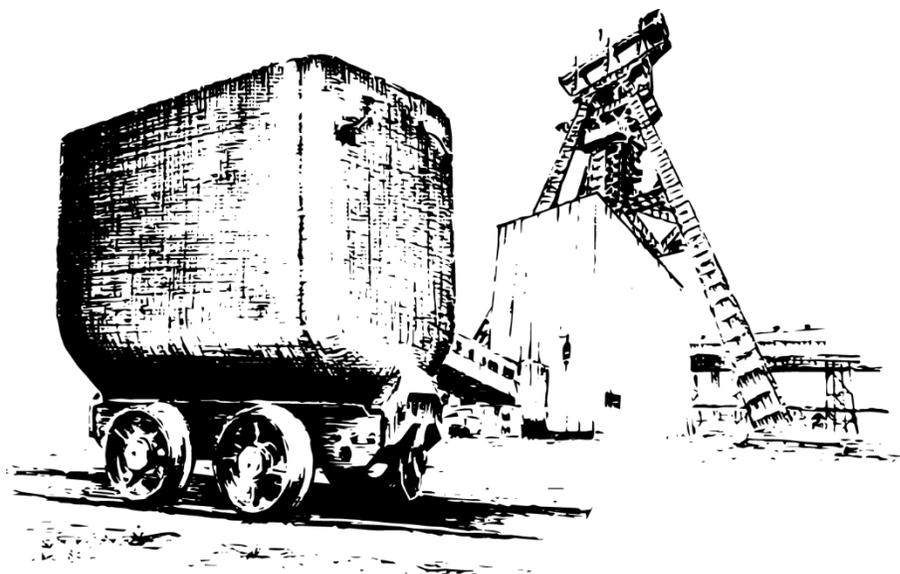
On 25 July 2019, the Extraordinary General Shareholders Meeting of removed Mr Przemysław Krasadomski from the Supervisory Board and appointed Ms Izabela Antczak-Bogajczyk to the Supervisory Board.





2

Organisation and
business activities
of the LW Bogdanka
Group



Lubelski Węgiel Bogdanka Spółka Akcyjna

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

Legal form and regulations which provide a basis for the 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:

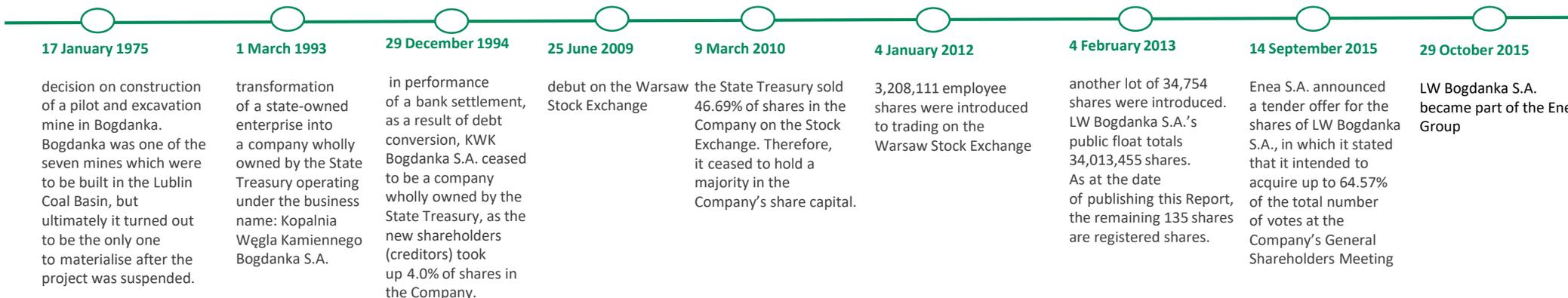
- Act of 15 September 2000 – Commercial Companies Code (Dz. U. 2019.505, as amended)
- Act of 9 June 2011 – Geological and Mining Law (Dz. U. 2019.868)

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



All above subsidiaries comprising the LW Bogdanka Group are subject to consolidation.

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 the structure of the LW Bogdanka Group

In H1 2019 there were no changes in the structure of the LW Bogdanka Group or the Group's organisational and capital relations to other entities. In the period in question there were no changes to the structure of the LW Bogdanka Group that would result from merger of business entities, acquisition or sale of the Group's undertakings, long-term investments, division, restructuring or discontinuation of activities.





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 EU.

As the situation on the market is undergoing dynamic changes, the Company is working

on updating the Strategy within the ENEA Group. New assumptions will be published before the end of this year.



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

The company's main objectives include:

- repairs of mining machines and devices
- 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.





Investment projects completed in H1 2019

In H1 2019, LW Bogdanka S.A. performed the planned investment tasks. In this respect, in H1 2019, capital expenditure for non-current assets totalled PLN 165,631,000.

The plan for 2019 includes: 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 excavations in the Bogdanka, Nadrybie, and Stefanów Fields.

DEVELOPMENT INVESTMENTS AND OVERHAULS LW BOGDANKA S.A.



Ostrów Field – design works – a programme & zoning concept along with the concept of monitoring natural environment were developed; an application was filed to the Regional Environmental Protection Directorate in Lublin for environmental approval for the pursued investment.

Machine park

Purchase and assembly of new machines and equipment – in H1 2019 LW Bogdanka S.A. purchased and assembled machines and equipment for a total amount of PLN 3,304,800, including costs of assembling. The purchases included electric-accumulator manoeuvring tractor, dry dust collector, coal crusher for the wall set, and drawbar scraper conveyor.

Purchases of finished goods (machines and equipment) – the finished goods worth PLN 18,549,000 were purchased. The most important items include: ready-made transportation devices (including hydraulic hoist, electric line hoist), hydraulic pumps and aggregates (including ONQR dosing pumps, pneumatic membrane pumps, mixing and injection kit, and screw compressors), electric devices (including flameproof transformer stations, motors, electric equipment), and other ready-made devices (including anchor pullers, laboratory devices, labour-saving mechanical devices, i.e. belt saws, hydraulic wrenches, torque wrenches), hydraulic drillers, 3D mobile laser scanner), manoeuvring locomotives, innovation purchases (output loader set).

Upgrade and repairs of machines and equipment – the amount of PLN 2,847,000 was assigned for the modernisation of BEVEX suspended locomotives, modernisation of Scharf combustion locomotives, and periodical repairs of carriages.

MCCP replacement projects – PLN 1,616,000 was spent for the casing of electromagnetic separators in MCCP, modernisation of steel constructions and facades, as well as installation of pulsators on dust containers in MCCP.

OPERATIONAL INVESTMENTS LW BOGDANKA S.A.



New workings and upgrade of existing ones

New excavations were built in accordance with the applicable Mining Works Schedule. The total length of the gallery workings as part of investments in the H1 2019 was equal to 12.1 km with the value of PLN 86,641,000.

Modernisation of workings with respect to reconstruction of galleries and vertical excavations was performed in accordance with the adopted schedules, worth in total PLN 38,324,000.

ICT

Alarm and monitoring system – performed works included automatic monitoring and extinguishing installation in fuel chamber in the Bogdanka and Nadrybie Fields, worth in total PLN 300,000.

Smart Mine Project – the implementation of IT system regarding project management in the Company was continued to be performed as part of this task.

Integrated production management system – the implementation of IT system regarding project management in the Company.

Computer systems – works related to the implementation of a system for reporting data of mining works and services at the mine were continued; data center system was extended and upgraded.

Purchase of ready-made devices – as part of this task ICT systems and devices (including underground stationary and mobile computers along with software) for the amount of PLN 489,600.

Other

Construction and modernisation of facilities and installations – PLN 2,314,000 was spent for modernisation of existing structures, and PLN 19,000 was spent for telecommunications systems and devices.



Investment projects completed in H1 2019

Selected items of capital expenditure in the LW Bogdanka Group

[PLN '000]	Plan 2019*	Performance H1 2019	Performance H1 2019 [%]
New excavations and upgrades of existing ones	328,434	124,965	38.0%
Maintenance of machinery	93,380	24,701	26.5%
Obtaining new licences	6,850	0	0.0%
Ostrów Field	8,191	569	6.9%
Longwalls	-	-	-
Other development investments	44,128	12,771	28.9%
ICT	6,743	1,323	19.6%
Administration	20	0	0.0%
Transport	2,186	0	0.0%
Other	7,157	1,302	18.2%
Total CAPEX in LW Bogdanka S.A.	497,089	165,631	33.3%
Łęczyńska Energetyka sp. z o.o.	13,000	911	7.0%
Other subsidiaries	1,456	471	32.3%
Total CAPEX at the LW Bogdanka Group	511,545	167,013	32.6%

*The Company updated the forecast level of performing the capital expenditure plan for 2019 in relation to shifted dates of performing some investment tasks and as a result of reducing the amount of galleries planned for 2019.

Deliveries of devices for the ploughing system used for the exploitation of the first wall in seam 391, field VIII, were rescheduled to January 2020, as a result of which PLN 30 million of expenditure allocated for this purpose will be incurred in 2020 (full amount).

As far as preparatory works are concerned, the Company plans to decrease the length of new workings planned for 2019 by almost 6 km (with an estimated value of PLN 56.2 million), for the following reasons:

- rescheduling the planned performance of test galleries in seam 389, field V – 1,350 m; (for geomechanical reasons the excavation should be performed after 2020),
- rescheduling the planned performance of top gallery, wall 6/II/385 for ventilation and fire reasons – 2,034 m (it will be drilled a year later, in 2020-2021),
- narrowing the scope of drilling of longwall galleries in wall 4/VIII/385 in Stefanów, due to a change in geological forecast. Change in the boundary isoline of the seam's thickness (1.2 m) 385/2– 1,230 m.

Capital expenditure for excavations in H1 2019

Excavations and works - total	Depreciation method	Length [m]	Value of the coal from the excavations [PLN '000]	Full value of capital expenditure [PLN '000]	Value of capital expenditure [PLN '000]
Longwall excavations:	natural	10,557.2			
Basic excavations	linear	1,494.0	46,993	171,958	124,965
Reconstructions	linear / natural	1,327.8			

In H1 2019, 12,922.2 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 38,324,000. The total expenditure incurred on the new excavations and on the modernization of the existing ones amounts to PLN 86,641,000.

Fractions are not included in the values indicated in the tables, because they are directly recognised in the costs. However, fractions are included in the total length. In this case, this is about 871 m.





Coal prices on the international market

CIF ARA coal prices

- USD 54.5/tonne - the average coal price (CIF ARA) in Q2 2019, i.e. -39.3% (compared to USD 89.8/tonne in Q2 2018)
- comparing to the average coal price (CIF ARA) in Q1 2019, (USD 74.4/tonne), it's a decrease by 26.7%

Inventories in ARA ports

- 7.2 million tonnes of coal inventories at the end of June 2019 in the ARA ports – increase by 0.6 million tonnes compared to March 2019 (6.6 million tonnes)

Prices in the world's main ports

- The average coal price FOB Baltic Ports in Q2 2019 amounted to USD 51.0/tonne, i.e. -38.9% (USD 83.7/tonne) compared to Q2 2018
- comparing to the average coal price in Q1 2019, i.e. USD 71.0/tonne, it's a decrease by 28.0%

China

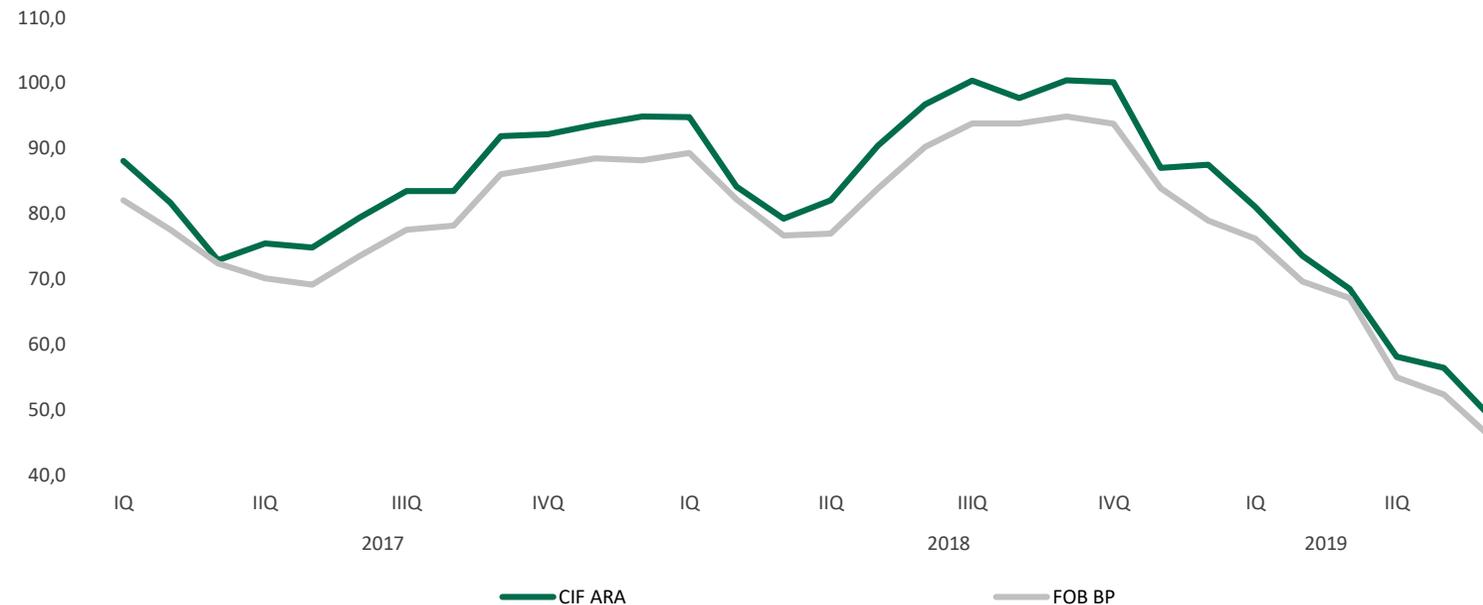
- approx. 1.8 billion tonnes of coal were produced in H1 2019, +5.9% compared to H1 2018 (1.7 billion tonnes)
- imports in H1 2019 were 154.5 million tonnes – an increase by approx. 5.8% compared to H1 2018 (146.0 million tonnes)

USA

- production in H1 2019 – 339.7 million tonnes, -0.2% compared to H1 2018 (340.5 million tonnes)
- consumption in H1 2019 – 259.8 million tonnes, -14.0% compared to H1 2018 (296.3 million tonnes)
- exports in H1 2019 – 45.2 million tonnes of hard coal, -14.2% y/y

Russia

- production in H1 2019 – 212.0 million tonnes, +1.2% y/y
- exports in H1 2019 (93.8 million tonnes) increased by 0.8% y/y





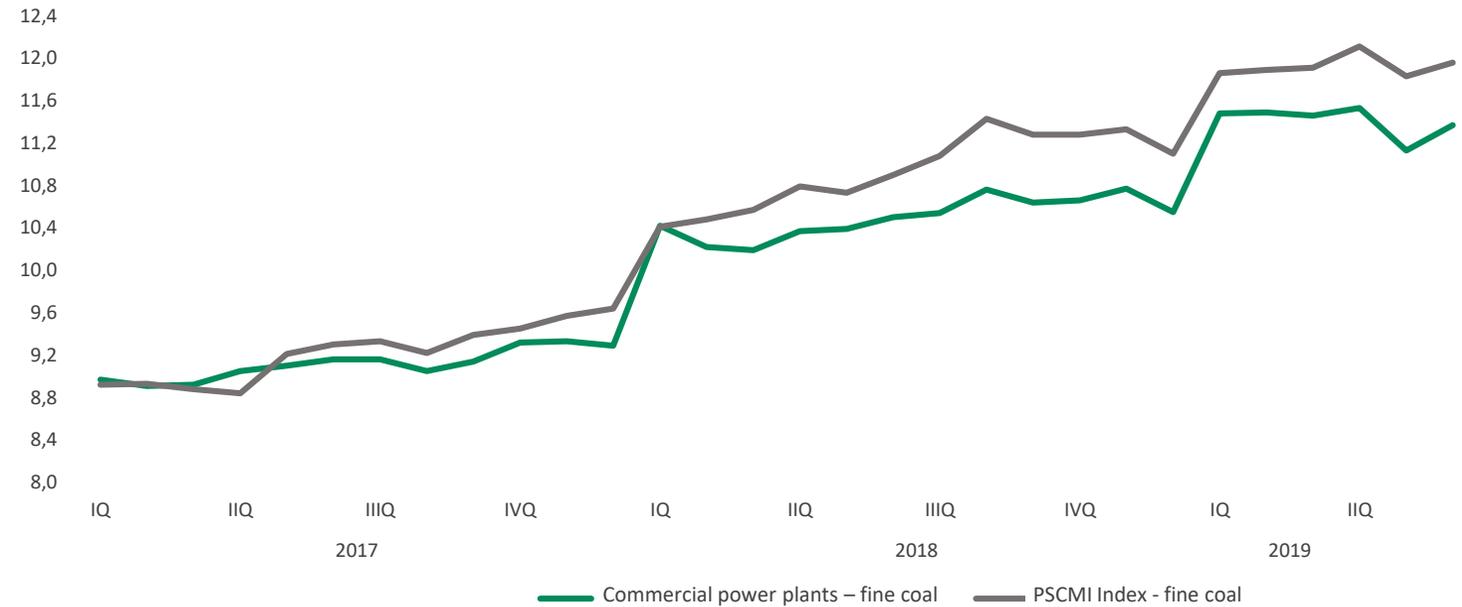
Fine thermal coal prices in the domestic market

Fine thermal coal prices

- in Q2 2019, the average annual price of fine thermal coal for commercial power plants was PLN 11.34 per GJ, the change dynamics was ca. 8.8% y/y
- comparing to Q1 2019 (PLN 11.48 per GJ) – a decrease of 1.2% was recorded
- average heating value of fine coal for commercial power plants was about 21.7 GJ

Prices based on the PSCMI index

- in Q2 2019 the average price based on the PSCMI index was approx. PLN 11.97 per GJ, which compared to average price in Q2 2018 (PLN 10.81 per GJ) represents an increase by approx. 10.7%
- comparing to Q1 2019 (PLN 11.89 per GJ) – an increase of approx. 0.7% was recorded





Production, sales and inventories of thermal coal in the domestic market in Q2 2019

Production of thermal coal in Poland

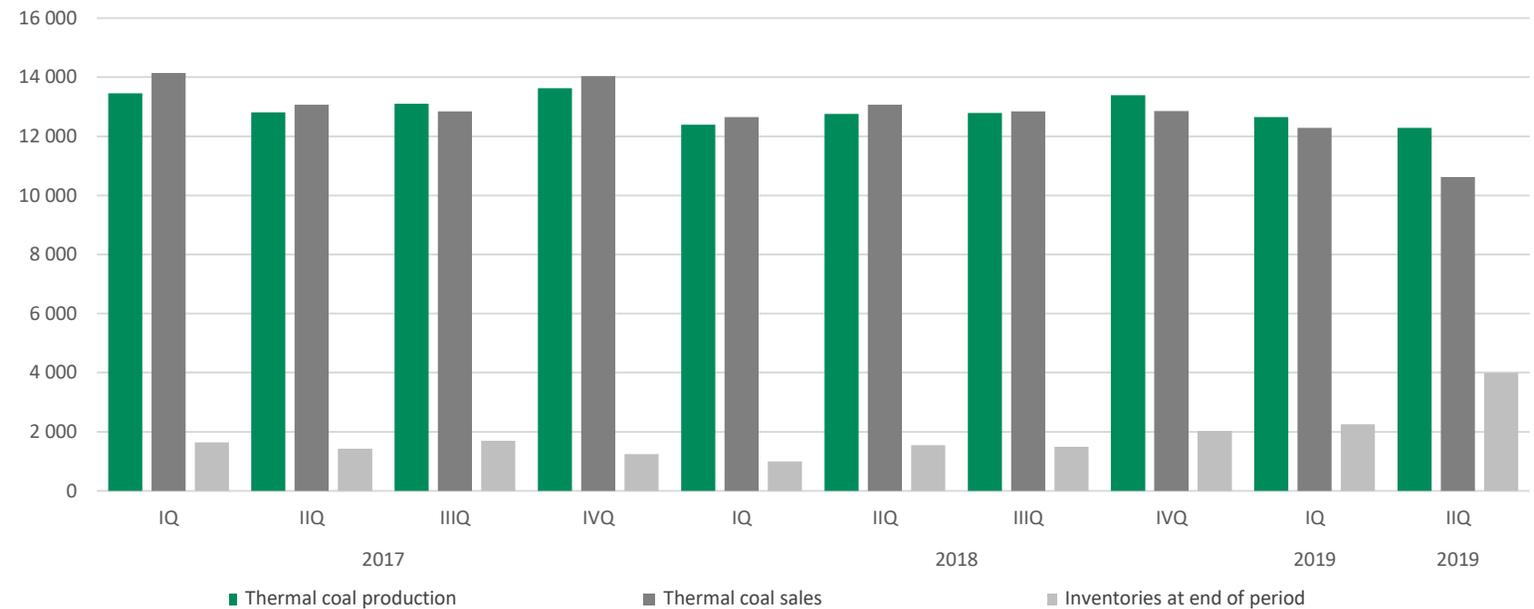
- in Q2 2019, the production of thermal coal amounted to about 12.8 million tonnes, which represents a decline of 4.1% y/y

Sales of thermal coal market in Poland

- sales in Q2 2019 amounted to about 10.6 million tonnes, including about 7.0 million tonnes of thermal fine coal sold to commercial power plants
- sales of thermal coal decreased by about 13.1% in comparison to Q2 2018

Inventories of coal in Poland

- the level of thermal coal inventories at the end of Q2 2019 totalled 4.0 million tonnes
- inventories went up by about 81.8% in comparison to the level as at Q2 2018





Production, sales and inventories of thermal coal as at the end of H1 2019 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 7.0 million tonnes of thermal fine coal. The most important customers from the commercial power industry are as follows:

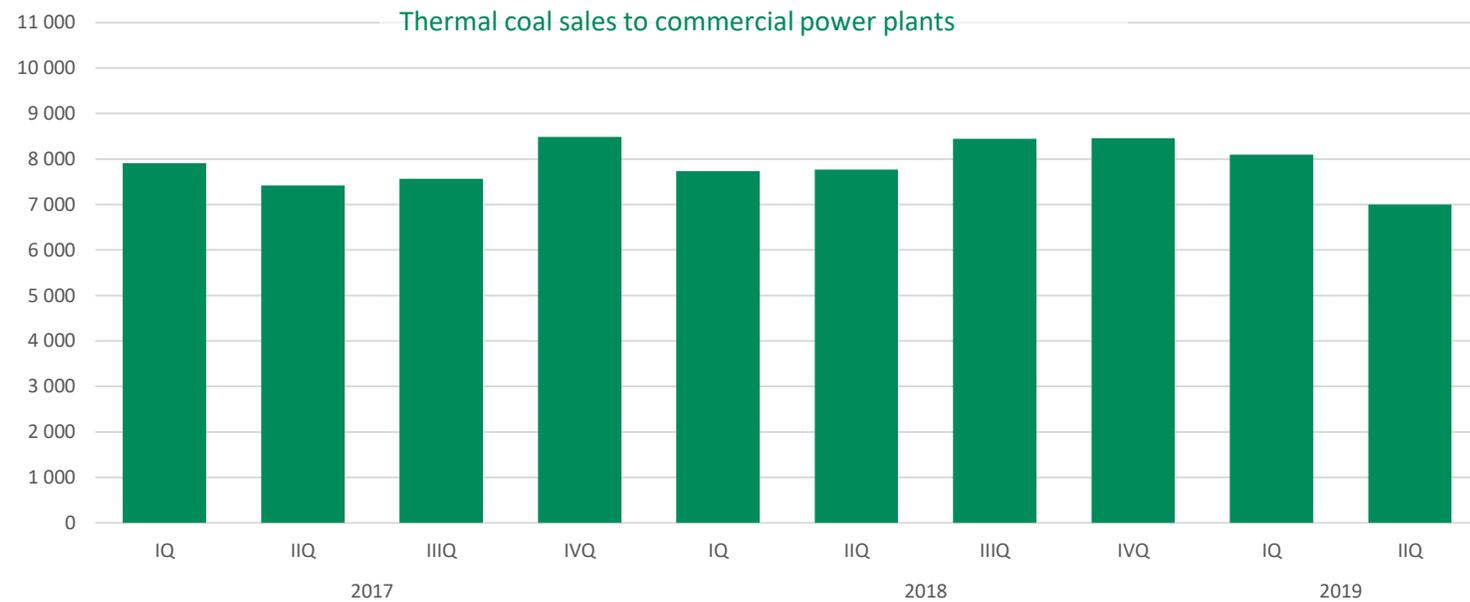
- Tauron
- PGE
- Enea
- PGNiG
- ENGIE
- ENERGA

Sales of thermal coal market in Poland

In H1 2019, about 22.9 million tonnes of thermal coal were sold in Poland. 22.3 million tonnes of coal were delivered to the domestic market, including 19.2 million tonnes of thermal fine coal.

Export of coal

In H1 2019 about 1.9 million tonnes of coal were exported, including approx. 0.6 million tonnes of thermal fine coal, while in Q2 2019 export sales covered 0.3 million tonnes.





Electricity generation in Poland

Electricity generation - total

- In H1 2019, the production of electricity totalled about 80,436 GWh, which represents a decrease of 836 GWh (-1.0%) versus the same period of 2018

Power generation from coal

- Coal was the main fuel used to produce electricity. In H1 2019 it was used to produce 60,541 GWh, which was a decrease by 3,610 GWh (-5.6%) compared to H1 2018.
- In H1 2019 coal accounted for 75.3% of total electricity production in Poland, but its share in the fuel mix went down by 3.6% in comparison with H1 2018.

Power generation from hard coal

- Hard coal served for producing electricity of 39,110 GWh (down by 2.1% compared to H1 2018).

Power generation from lignite

- Lignite was used to produce 21,431 GWh of electricity (11.4% less than in H1 2018).

Power generation by wind farms

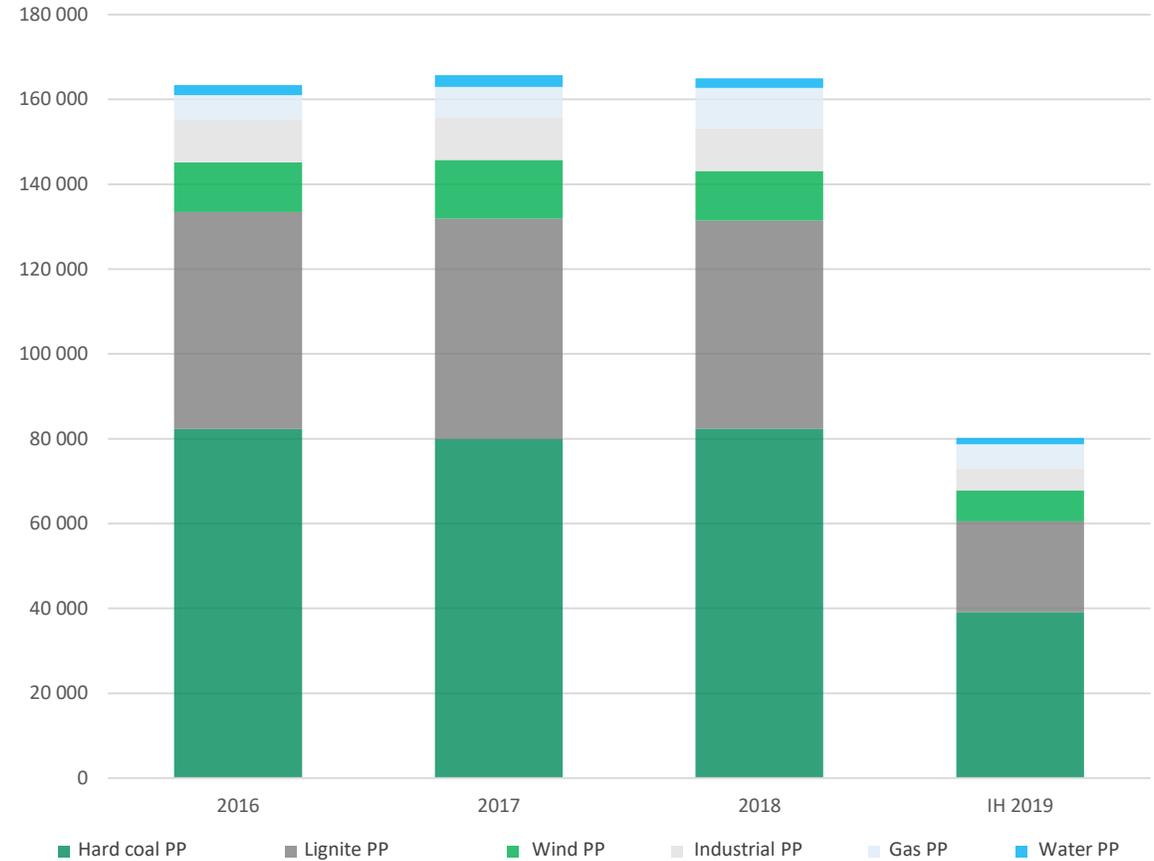
- Wind farms produced 7,343 GWh of electricity which represents an increase by 26.0% in comparison with H1 2018. Wind made up about 9.1% of electricity production.

Power generation by gas-fired power stations

- Gas power plants produced 5,673 GWh of electricity, which was an increase of 18.5% compared to H1 2018.

Electricity consumption on the domestic market

- In H1 2019, the use of electricity totalled about 85,028 GWh, which represents a decrease of 82 GWh (-0.1%) versus the same period of 2018.





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• Risk of unfavourable/inappropriate contractual terms being concluded	<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 of a change in the law and its interpretation and application• Risk of violating the stock exchange disclosure requirements



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

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.



Factors 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 hard coal. The annual consumption of hard 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 prices of thermal coal and raw materials alternative to thermal coal (crude oil, natural gas, renewable sources) are the main factors shaping the prices of raw materials on global markets, and consequently, on the domestic market.

This is of key significance for the activities conducted by the Parent. Price increases in the international markets in the last two years were followed, from the beginning of 2019, by a significant price decline resulting primarily from the supply-and-demand situation of key customers of imported coal in Europe. In 2019, in the domestic market, the prices of thermal coal continued the increases which started in 2017. Given that the level of domestic production dropped and the imports increased, one may expect that situation on the domestic market will stabilise.



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.





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

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.





Risk 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 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. The application for the licence is processed. Currently the Court of Appeals has released the security for this area and the case may be given further course.



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:

- 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, carrying out R&D works, implementing innovative technologies for

improvement of underground climate conditions.



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 however failed to resume works under the abovementioned contract following the demand made on 2 October 2018, 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. In the press release dated 29 March 2019, PKP Polskie Linie Kolejowe S.A. announced that it had signed with Budimex and Track Tec Construction agreements to continue works in the Dęblin-Lublin section. According to another announcement of PKP PLK S.A. dated 26 June 2019, train traffic is to be resumed in 2019, on one track on the Lublin-Dęblin section further to Warsaw, and train traffic with two tracks used will be possible at the end of 2020.





Risk 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 7.0% of the carrying amount and 26.3% of its revenue for the last 6 months of 2019. The share of trade receivables in trade and other current receivables accounted for 89.0%.

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 operating activities conducted by the LW Bogdanka Group.

Countermeasures: permanent dialogue with trade union organisations, running cyclical meetings of the purpose of negotiating with the social side.



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. Development measures addressed to the management of a mining plant: the Foreman Academy and the Mining Leaders Academy. Interdisciplinary meetings building commitment, run through the design thinking method, the purpose of which is to work out enhancements and new solutions.



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.



Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements (in particular those relating to the purchase of specialist equipment and technology),

the Group is exposed to a risk of agreements being concluded on unfavourable terms.

Countermeasures:

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





Financial risks and risks associated with environmental protection

Liquidity risk

Important factors in the assessment of insolvency risk are:

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

In the case of the Group, cash at hand as at 30 June 2019 amounted to PLN 262,468,000. The current liquidity ratio for the Group is 1.73, and quick liquidity ratio is 1.43.

In H1 2019, net flows from operating activities generated by the LW Bogdanka Group stood at a level of PLN 333,536,000 with capital expenditure of PLN -237,902,000 (CFFO PLN 95,634,000).

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 up to PLN 100 million.



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 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.





Risk factors 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 2019 fiscal proceedings were pending against

LW Bogdanka S.A. in order to determine the amount of real property tax due for the period between 2004 and 2015, instigated by the Heads of Puchaczów, Cyców and Ludwin Communes.

Countermeasures:

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

For more information refer to the condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2019, Note 15.



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

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

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





Workforce

Workforce changes

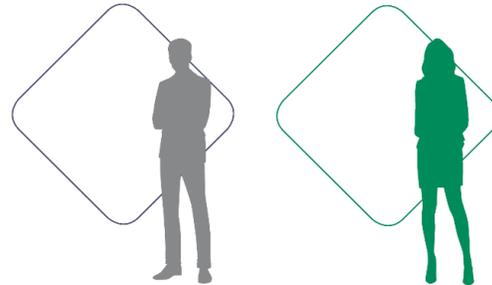
Employment at the Group

The first half of 2019 brought a 3.9% increase in employment in the Group (comparing to H1 2018). The highest increase (in %) in FTJs was recorded in RG Bogdanka sp. z o.o.

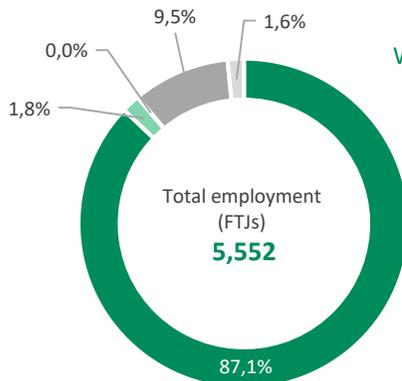
Workforce of the Parent

In 2019 the personnel employed at the Parent accounted for 87.1% of total employment in the Group. Blue-collar workers accounted for 84.5% of all employees. In comparison with H1 2018 the number of underground staff went up by 170.0 workers, i.e. 5.0%. Underground personnel constituted the main group employed in LW Bogdanka S.A., i.e. 73.5%.

In H1 2019, 142 employees were employed at LW BOGDANKA S.A., while 60 employees left the Company.

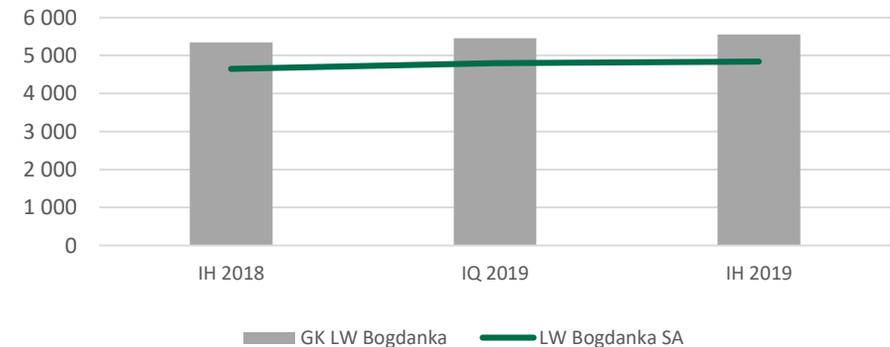


Employment (FTJs)	30 Jun. 2018	31 Mar. 2019	30 Jun. 2019	Workforce structure at the Group	Change H1 2019/ H1 2018	Change H1 2019/ Q1 2019
	Total					
Total workers	3,997.0	4,111.0	4,087.0	-	2.3%	-0.6%
Underground workers	3,057.0	3,164.0	3,145.0	-	2.9%	-0.6%
Surface workers	940.0	947.0	942.0	-	0.2%	-0.5%
Full-time employees underground	326.0	374.0	408.0	-	25.2%	9.1%
Full-time employees on the surface	322.2	311.9	340.9	-	5.8%	9.3%
Total underground	3,383.0	3,538.0	3,553.0	-	5.0%	0.4%
LW Bogdanka S.A.	4,645.2	4,796.9	4,835.9	87.1%	4.1%	0.8%
RG Bogdanka sp. z o.o.	369.1	470.0	526.6	9.5%	42.7%	12.0%
MR Bogdanka sp. z o.o.	229.6	86.5	88.5	1.6%	-61.5%	2.3%
EkoTrans Bogdanka sp. z o.o.	1.0	1.0	1.0	0.0%	-	-
Łęczyńska Energetyka sp. z o.o.	96.0	100.5	99.5	1.8%	3.6%	-1.0%
LW Bogdanka Group	5,340.9	5,454.9	5,551.5	100.0%	3.9%	1.8%



Workforce structure at the LWB Group broken down into companies

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





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. Since 2018 the Company has been implementing the "Corporate Social Responsibility Strategy for 2018-2021"; the preparation process of the Strategy followed a cycle of dialogue sessions with key stakeholders of the Company 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.



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 regulations applicable in the Group, 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 S.A. 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.

Ethics, anti-discrimination and variety management

The applicable Code indicates ethical values and principles which should be followed at the Company and clearly describes potential conflict situations. It defines the required attitudes in connection with political neutrality, relations among employees, protection of Company's interests, non-competition, conflict of interest, and anti-bribery, anti-corruption, and discrimination. Every new employee is informed

of the Code of Ethics and fills in a Conflict of Interest Report. Since 2018 applicable in the whole Group. Diversity and openness are the underlying values of the HR policy, in line with the principle that managing the diversity contributes to development and attainment of business goals set by the Company.

Since 2015 "Supplier Code of Conduct of LW Bogdanka" has been in force at the Company. This document is a formal statement of certain rules which have for some time now been present in dealings with the representatives of suppliers, and which mostly arise from the Code of Ethics. It is intended to contribute to ensuring the transparency of management practices and effective management of responsibility in the supply chain. It regulates issues related to:

- observance of the law, including respect for human rights,
- prevention of discrimination,
- relations in the workplace,
- occupational health and safety,
- natural environment protection,

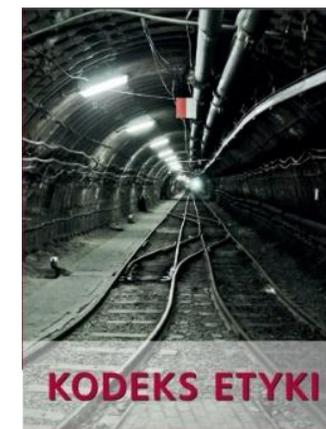
It is expected of the subcontractors working in LW Bogdanka S.A. that their employees comply with the Code of Ethics applicable at the Company. In accordance with the rules laid down in the Code of Ethics, they also have a possibility of reporting potential irregularities and unethical behaviour. Irrespective of the above, they have for many years been obligatorily trained in health and safety procedures applicable on the Company premises.

LW Bogdanka undertakes many actions supporting the development of the local community. It cooperates with vocational schools by introducing dedicated internship and scholarship programmes and by providing technical support for the teaching staff. The cooperation also covers local educational and scientific institutions, taking care for the highest level of both formal education and non-formal learning. This includes promotion of health prevention - making

local stakeholders join the organised or co-organised prophylactics events. The area of social activities is regulated by the *Policy of social involvement of LW Bogdanka S.A.*, applicable since 2019, combining the donations fund and the social and cultural sponsorship, containing information on Bogdanka's priorities with respect to social cooperation, examples of supported activities or application recognition procedure.

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 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 H1 2019 the Parent gave donations and in-kind contributions for a total amount of PLN 325,800 towards the Children's Hospital in Lublin or those in care of Caritas.

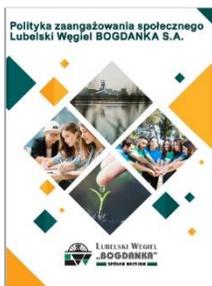




Social matters

Current initiatives

In 2019, as 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 School Complex in Nadrybie for students of schools in the Poviát. 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. 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. IQS - in May 2019, in partnership with the Institute of Education Research, LW Bogdanka S.A. organised a seminar entitled "QUALIFICATIONS OF THE FUTURE. INTEGRATED SYSTEM OF PROFESSIONAL QUALIFICATIONS IN THE MINING INDUSTRY". The seminar was addressed to people and institutions involved in professional education and related to the mining industry. IQS, that is the Integrated Qualifications System, is a system solution introduced with a view to improving the level of human capital in Poland by gathering, describing and organising all qualifications searched for on the job market in one, commonly available, register.



Effectiveness of safety management at the workplace

At LW Bogdanka S.A., matters 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. 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 in charge of Employee and Social Affairs. The initiatives which are positively assessed and approved of by the Management Board are subsequently implemented.



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 objectives set out in the by-laws, 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 H1 2019 the Foundation spent PLN 249,100 for the objectives set out in the by-laws.





Social matters

Close to nature

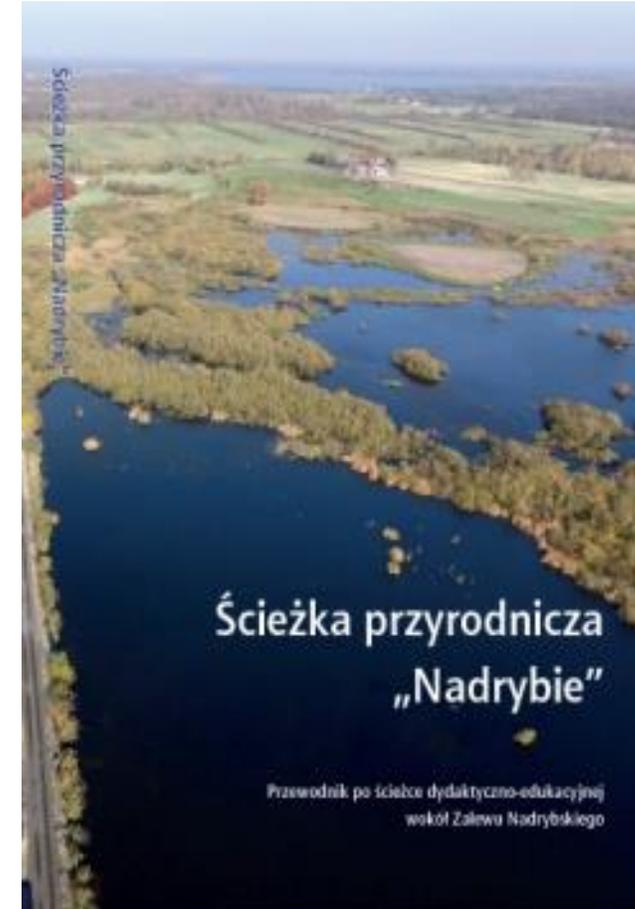
Effective environmental management is based on the Integrated Health and Safety, Quality and Environment Management System. It complies with PN-EN ISO 9001:2015, PN-EN ISO 14001:2015, PN-N-18001:2004 and, additionally, as regards health and safety, with the British standard BS OHSAS 18001:2007.

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 the Guidebook it is easy for the interested individuals to navigate their way along the path. The place is very popular among the locals, especially primary school children, who appreciate its educational value, and the possibility of having a walk amidst nature. In H1 2019 the natural workshops organised by the Company were attended by almost 180 people.

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) were subject to regulation and stabilisation works. For this purpose, works are underway in order to install water gates 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.





3

Financial standing



Production, sales and inventories of coal

Production, sales of commercial coal of the Company

['000 tonnes]	Q2 2018	Q2 2019	Change	Change %	H1 2018	H1 2019	Change	Change %
Gross coal extraction	3,893	3,497	-396	-10.2%	7,585	7,408	-177	-2.3%
Production of commercial coal	2,424	2,293	-131	-5.4%	4,519	4,825	306	6.8%
Yield (%)	62.3%	65.6%	3.3 p.p.	-	59.6%	65.1%	5.5 p.p.	-
Sale of commercial coal	2,374	2,405	31	1.3%	4,341	4,770	429	9.9%
New excavations (km)	10.8	6.4	-4.4	-40.7%	19.7	14.2	-5.5	-27.9%

Inventories of commercial coal of the Company

['000 tonnes]	30 Jun. 2018	31 Dec. 2018	30 Jun. 2019	Change [%] 30 Jun. 2019 / 31 Dec. 2018	Change [%] 30 Jun. 2019 / 30 Jun. 2018	
Inventories of coal		202	88	144	63.6%	-28.7%

Structure of commercial coal production

[%]	Q2 2018	Q2 2019	H1 2018	H1 2019
Fine coal	98.7%	99.4%	99.0%	99.4%
Nut coal	0.2%	0.0%	0.2%	0.0%
Pea coal	1.1%	0.6%	0.8%	0.6%
Total	100.0%	100.0%	100.0%	100.0%

Production of coal

- (-) gross extraction of coal in H1 2019 decreased by 2.3%, i.e. 177,000 tonnes.
- (+) production of commercial coal in H1 2019 was 4,825,000 tonnes, i.e. more by 306,000 tonnes than in the same period of 2018
- (+) yield for H1 2019 was 65.1% compared to 59.6% for H1 2018
- (+) good mix of the walls (more cutting machine walls), higher yield

Sale of coal

- (+) In Q2 2019, the sales of coal grew by 1.3% compared to Q2 2018
- (+) In H1 2019 the sales of commercial coal amounted to 4,770,000 tonnes, i.e. by 9.9% more than in the same period of 2018
- (+) the dynamic increase in revenue was boosted by the price increase.

Inventories

- (+) at the end of Q1 2019, the level of coal inventories amounted to 144,000 tonnes, which means an increase by 56,000 tonnes compared to the level as at 31 December 2018
- (+) the level of coal inventories presented at the end of Q2 2019 corresponds approximately to 5 days of commercial coal production (on the basis of average daily production for 12 months)
- (+) the achieved level of inventories of coal is a result of the coal production and realised 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]	Q2 2018	Q2 2019	Change	Change %	H1 2018	H1 2019	Change	Change %
Sale of coal	446,300	545,692	99,392	22.3%	832,098	1,071,969	239,871	28.8%
Other activities	5,834	7,488	1,654	28.4%	14,721	16,265	1,544	10.5%
Sale of goods and materials	5,121	4,369	-752	-14.7%	9,133	10,102	969	10.6%
Total	457,255	557,549	100,294	21.9%	855,952	1,098,336	242,384	28.3%

Structure of revenue

[%]	Q2 2018	Q2 2019	H1 2018	H1 2019
Sale of coal	97.6%	97.9%	97.2%	97.6%
Other activities	1.3%	1.3%	1.7%	1.5%
Sale of goods and materials	1.1%	0.8%	1.1%	0.9%
Total	100.0%	100.0%	100.0%	100.0%

Geographical structure of revenue

[PLN '000]	Q2 2018	Structure	Q2 2019	Structure	H1 2018	Structure	H1 2019	Structure
Domestic sales	457,243	100.0%	557,549	100.0%	855,879	100.0%	1,098,299	100.0%
Foreign sales	12.3	0.0%	0.0	0.0%	73	0.0%	36.7	0.0%
Total	457,255	100.0%	557,549	100.0%	855,952	100.0%	1,098,336	100.0%

Geographical structure of revenue

The activities of the Group are primarily concentrated in Poland. In Q2 2019 and in H1 2019 the exports of goods and products included primarily sale of coal. In H1 2019 the share of exports in the total revenue was 0.003% (PLN 36,700), while in H1 2018 the figure was 0.01% (PLN 73,000).

Revenue

(+) in Q2 2019, the Group generated revenue in the amount of PLN 557,549,000, which represents an increase by 21.9% compared to Q1 2018

(+) in H1 2019 the revenue amounted to PLN 1,098,336,000 compared to PLN 855,952,000 in H1 2018, which means an increase in revenue by 28.3% y/y

The main source of revenue of the LW Bogdanka Group is the production and sale of thermal coal by the Parent. In each of the compared reporting periods this activity generates approx. 97%-98% of the LW Bogdanka Group's revenue.

Revenue on other operations

In Q2 2019 revenue on other operations (which includes revenue of subsidiaries) were PLN 7,488,000 (1.3% of total revenue), compared to PLN 5,834,000 (1.3% of revenue) in the analogous period of 2018 (up by 28.4% 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 Łęczyńska 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 H1 2019 revenue on other operations was PLN 16,297,000 compared to PLN 14,721,000 for the previous year. The increase in revenue in this group is related to higher revenue of subsidiaries from services provided outside the LWB Group.

Higher value of revenue on sales of goods and materials 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 H1 2019 was effected between LW Bogdanka S.A. and Enea Wytwarzanie sp. z o.o., Enea Elektrownia Połaniec S.A., ENERGA Elektrownie Ostrołęka S.A., PGE Paliwa and Grupa Azoty Zakłady Azotowe Puławy S.A.

In 2018 the share of the above customers was similar.

Key customers by share in revenue:

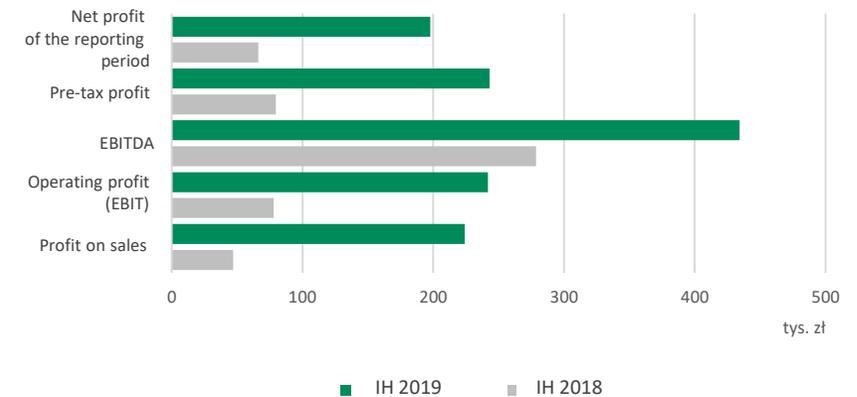
- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 64% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 19% share in the revenue



Financial highlights of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q2 2018	Q2 2019	Change	H1 2018	H1 2019	Change
Revenue	457,255	557,549	21.9%	855,952	1,098,336	28.3%
Costs of products, goods and materials sold, selling costs and administrative expenses	408,843	444,263	8.7%	809,003	874,207	8.1%
Profit on sales	48,412	113,286	134.0%	46,949	224,129	377.4%
Gross sales margin	10.6%	20.3%	9.7 p.p.	5.5%	20.4%	14.9 p.p.
Other income	-812	1,215	-249.6%	30,360	2,530	-91.7%
Other costs	327	150	-54.1%	756	476	-37.0%
Net operating profit	47,273	114,351	141.9%	76,553	226,183	195.5%
Other profits/(losses) - net	2,256	-510	-122.6%	1,485	15,624	952.1%
Operating profit (EBIT)	49,529	113,841	129.8%	78,038	241,807	209.9%
EBIT margin	10.8%	20.4%	9.6 p.p.	9.1%	22.0%	12.9 p.p.
EBITDA	151,147	211,559	40.0%	278,623	434,419	55.9%
EBITDA margin	33.1%	37.9%	4.8 p.p.	32.6%	39.6%	7.0 p.p.
Finance income	5,361	1,166	-78.3%	10,141	8,299	-18.2%
Finance costs	3,769	3,734	-0.9%	8,529	7,029	-17.6%
Profit before taxation	51,121	111,273	117.7%	79,650	243,077	205.2%
Pre-tax profit margin	11.2%	20.0%	8.8 p.p.	9.3%	22.1%	12.8 p.p.
Income tax	7,937	23,319	193.8%	13,297	45,154	239.6%
Net profit for the financial year	43,184	87,954	103.7%	66,353	197,923	198.3%
Net sales margin	9.4%	15.8%	6.4 p.p.	7.8%	18.0%	10.2 p.p.





Financial highlights LW Bogdanka Group

Revenue

The value of revenue for Q2 2019 went up by 21.9% compared to the same period of the previous year and amounted to PLN 557,549,000. In H1 2019 the LW Bogdanka Group generated revenue at a level of PLN 1,098,336,000 compared to PLN 855,952,000 in the same period of 2018 (increase by 28.3%).

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

In Q1 2019 costs of products, goods and materials sold plus selling costs and administrative expenses amounted to PLN 444,263,000, i.e. they went up by 35,420,000 compared to the same period of the previous year (PLN 408,843,000). In H1 2019 cost of products, goods and materials sold as well as selling costs and administrative expenses increased from PLN 809,003,000 to PLN 874,207,000.

Profit on sales

In Q2 2019 loss on sales amounted to PLN 113,286,000, while in the same period of 2018 profit on sales was recorded and amounted to PLN 48,412,000. In H1 2019 the Group generated profit on sales in the amount of PLN 224,129,000, versus PLN 46,949,000 in H1 2018.

Other income

In Q2 2019 other income amounted to PLN 1,215,000 compared to loss of PLN 812,000 a year before. In H1 2019 other income amounted to PLN 30,360,000 with the dominant item being 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).

Other costs and other profit / (loss) - net

Other costs in H1 2019 amounted to PLN 429,000 while in the same period of 2018 the figure was PLN 756,000 – a dominant item in both periods were damages paid and donations granted. Other net losses in Q2 2019 amounted to PLN 510,000 compared to profit of PLN 2,256,000 in Q2 2018 – which means a decrease by PLN 2,766,000. Other net profit in H1 2019 amounted to PLN 15,624,000 compared to PLN 1,485,000 in H1 2018 (in relation to a release of a provision for disputable claim of the Social Security Institution (ZUS).

EBIT

Operating result in Q2 2019 amounted to PLN 113,841,000. EBIT margin in Q2 2019 was 20.4%, i.e. it was higher by 9.6 p.p. than in the second quarter of the previous year. EBIT margin for the whole H1 2019 was higher by 12.9 p.p. compared to the same period of 2018, and accounted for 22.0%.

EBITDA

EBITDA in Q2 2019 increased by 40.0% compared to Q2 2018 and amounted to PLN 211,559,000. EBITDA margin in Q2 2019 equalled 37.9%, which shows an increase compared to the same period of 2018. In H1 2019 the Group achieved an EBITDA margin of 39.6%, i.e. 7.0 p.p. more year on year compared to 2018 (EBITDA amount increased by 55.9% in the analysed period). In H1 2019, EBITDA amounted to PLN 434,419,000, compared to PLN 278,623,000 in H1 2018.

Finance income

Finance income in Q2 2019 amounted to PLN 1,166,000 (-78.3% y/y). In H1 2019 finance income was PLN 8,299,000 (-18.2% y/y). Finance income in H1 2019 is primarily a result of:

- drop in interest income on short-term bank deposits,
- release in 2018 of the provision for interest

- on income tax (PLN 3,578,000),
- release in 2018 of the provision for potential interest on liabilities towards the Mostostal Warszawa S.A. and Acciona Infraestructuras Consortium (PLN 2,753,000).
- release in 2019 of the provision for interest on disputable claim of the Social Security Institution (ZUS).

Finance costs

In the second quarter of 2019 finance costs amounted to PLN 3,734,000 and were lower by 0.9% than the costs in the same period of 2018. Finance cost for H1 2019 amounted to PLN 7,029,000 compared to PLN 8,529,000 in H1 2018 (decrease by 17.6%). As at 30 June 2019 total debt of the Group amounted to PLN 15,607,000, compared the Group's debt of PLN 17,142,000 as at 31 December 2018.

Profit before taxation

In Q2 2019 the Group recorded pre-tax profit of PLN 111,273,000 compared to the profit of PLN 51,121,000 in Q2 2018. Profit before taxation for H1 2019 amounted to PLN 243,077,000 against PLN 79,650,000 in the same period of 2018.

Net profit for the financial year

In Q2 2019 the Group achieved net profit of PLN 87,954,000 compared to PLN 43,184,000 in Q2 2018. The net profit of the Group for H1 2019 was PLN 97,923,000 compared to PLN 66,353,000 in the analogous period of the previous financial year.





Balance sheet of the LW Bogdanka Group

Balance sheet [PLN '000]	31 Dec. 2018	30 Jun. 2019	Change
Total assets	3,933,351	4,119,940	4.7%
Return on Assets (ROA)*	1.3%	4.6%	3.3 p.p.
Non-current assets	3,463,822	3,453,633	-0.3%
Current assets	469,529	666,307	41.9%
Equity	2,950,116	3,121,896	5.8%
Return on Equity (ROE)*	1.8%	6.1%	4.3 p.p.
Provisions and liabilities	983,235	998,044	1.5%

* the calculations include net result for the last four quarters and an average level of assets and equity (as at 30 June 2019 + as at 31 December 2018)/2

Assets

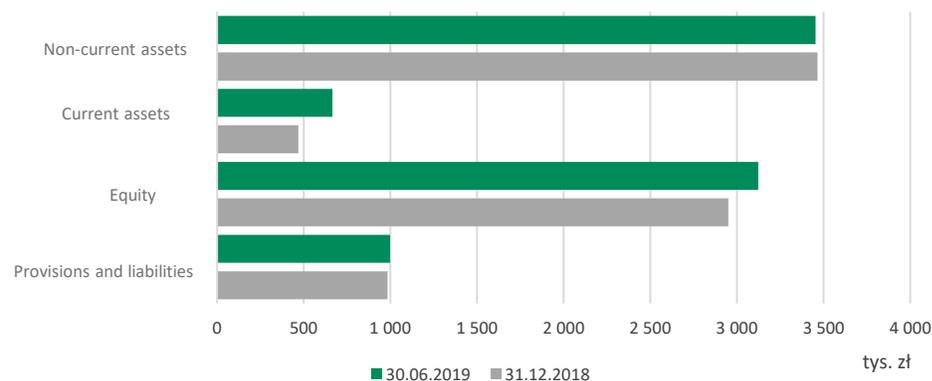
The balance-sheet total as at 30 June 2019 compared to the value as at 31 December 2018 went up by PLN 186,589,000 and amounted to PLN 4,119,940,000, with non-current assets going down by PLN 10,189,000 and current assets going up by PLN 196,778,000. Within current assets, the value of trade and other receivables went up by 42.1%, inventories - by 37.4%, and cash and cash equivalents - by 53.7%. As at 30 June 2019 the ROA figure was 4.6%, while as at the end of 2018 it was 1.3%.

Equity and liabilities

The equity went up by 5.8%. It was solely an effect of the comprehensive income generated for H1 2019. Provisions and liabilities went up by 1.5% compared to the value as at 31 December 2018, with current liabilities going down by 3.1% (drop was recorded mainly in provisions for other liabilities and charges), and non-current liabilities going up by 5.3% (including increase in provisions for other liabilities and charges as well as liabilities on account of financial lease).

At 30 June 2019 an increase in ROE was recorded (by 4.3 p.p.) compared to the end of 2018. The value of the ratio as at 30 June 2019 was 6.1% compared to 1.8% as at 31 December 2018.

Analysis of the consolidated statement of financial position



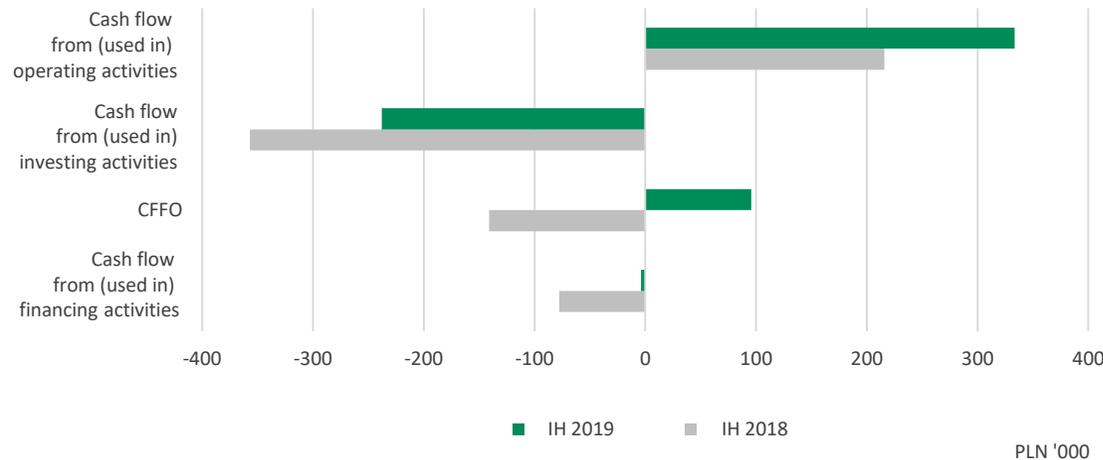


Cash flow
LW Bogdanka Group

Cash flow

[PLN '000]	Q2 2018	Q2 2019	Change	H1 2018	H1 2019	Change
Cash flow from (used in) operating activities	174,336	183,276	5.1%	215,895	333,536	54.5%
Cash flow from (used in) investing activities	-258,790	-90,229	-65.1%	-357,048	-237,902	-33.4%
CFFO*	-84,454	93,047	-	-141,153	95,634	-
Cash flow from (used in) financing activities	-954	-1,731	81.4%	-77,887	-3,959	-94.9%

* total cash flow from operating and investing activity



In Q2 2019 the Group generated net cash flow from operating activities higher by 5.1% than in Q2 2018 - in 2019 it amounted to PLN 183,276,000 compared to PLN 174,336,000 a year before. In H1 2019 the LW Bogdanka Group generated cash flow from operating activities of PLN 333,536,000 (+54.5% y/y). The increase by PLN 117,641,000 in cash flow from operating activities (PLN 333,536,000 in H1 2019 compared to PLN 215,895,000 in H1 2018) is primarily related to the decrease in the pre-tax profit/loss. The pre-tax profit/loss in H1 2018 amounted to PLN 79,650,000, and in the same period of 2019 the figure was PLN 243,077,000, which represents a year-to-year change of PLN 163,427,000.

Cash flow from investing activities decreased its value (in absolute values) in Q2 2019 by 65.1% (to PLN -90,229,000) relative to the analogous period of 2018. In the whole H1 2019 cash flow from investing activity was lower by 33.4% from cash flow from the analogous period last year.

In Q2 2019, the Group recorded negative cash flow from financing activities of PLN 1,731,000 (loans of PLN 759,000 were repaid, interest of PLN 165,000 was paid, and liabilities under financial lease agreements were of PLN 807,000 were paid). In H1 2019, the Group recorded negative cash flow from financing activities of PLN 3,959,000 (loans of PLN 1,518,000 were repaid, interest of PLN 412,000 was paid, and liabilities under financial lease agreements were of PLN 2,029,000 were paid).





Debt and liquidity ratios LW Bogdanka Group

The Company presents selected APM indicators, as in its opinion they are the source of additional (with respect to data presented in the financial statements) and valuable information on financial and operating standing, and make it easier to analyse and assess the Company's results achieved during various reporting periods. The Company presents these specific alternative measurements of results as they are standard indicators commonly used in financial analyses. The selection of alternative measurements followed an analysis of their usefulness as far as providing investors with useful information on financial standing, cash flows and financial efficiency is concerned, and the Company believes they allow the achieved financial results to be well assessed.

Cash flow

[PLN '000]	31 Dec. 2018	30 Jun. 2019	Change
Overall debt ratio	25.0%	24.2%	-0.8 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.39	0.30	-23.1%
Net debt ratio/EBITDA*	-0.33	-0.40	21.2%
Debt to equity ratio	33.3%	32.0%	-1.3 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	97.1%	102.7%	5.6 p.p.
Current debt ratio (current liabilities/equity and liabilities)	11.4%	10.5%	-0.9 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	13.6%	13.7%	0.1 p.p.

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

	31 Dec. 2018	30 Jun. 2019	Change
Current liquidity ratio	1.28	1.79	39.8%
Quick liquidity ratio	1.05	1.48	41.0%

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 30 June 2019 went down by 0.8 p.p. compared to 31 December 2018 and reached 24.2% - the share of trade and other liabilities decreased.

The level of the Group's debts as at 30 June 2019 did not pose any risk to the Group's operation and its ability to settle liabilities in a timely manner. The Group's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q2 2019 dropped by 23.1% to 0.30.

When comparing data as at 30 June 2019 to data as at 31 December 2018, an increase was recorded both in debt and EBITDA (cumulatively for the last four quarters), but the increase in EBITDA was higher than that of debt.

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 -0.33 as at 31 December 2018 to -0.40 as at 30 June 2019. The value of net debt dropped by ca. PLN 93 million and amounted to PLN -247 million with EBITDA going up by ca. PLN 156 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 30 June 2019 decreased in relation to 31 December 2018 by 1.3 p.p. and was 32.0% - liabilities grew by ca. PLN 15 million along with an increase in equity by ca. PLN 172 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 102.7% (as at 30 June 2019) compared to 97.1% (as at 31 December 2018) – in the analysed period the value of non-current assets dropped by PLN approx. 10 million; fixed capitals (equity plus non-current liabilities less provisions) increased by approx. PLN 186 million.



Turnover ratios at the LW Bogdanka Group

Turnover ratios

			31 Dec. 2018	30 Jun. 2019	Change
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times$	days in the period	17	22	29.4%
2. Debtors collection rate*	$\frac{\text{Average receivables}}{\text{revenue}} \times$	days in the period	43	41	-4.7%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times$	days in the period	74	71	-4.1%
4. Operating cycle	1+2		60	63	5.0%
5. Cash conversion cycle	4-3		-14	-8	-42.9%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover

The inventory turnover as at 30 June 2019 went up to 22 days, compared 31 December 2018. Disposal of inventories takes on average 5 days more.

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 41 days (as at 30 June 2019), compared to 43 days (as at 31 December 2018). In the period under analysis, average receivables grew by approx. PLN 40 million, with the revenue going down by approx. PLN 658 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 3 days to ca. 71 days, as compared to the figure as at the end of 2018. In the period under analysis, the Group had a lower level of current trade creditors (by approx. PLN 7 million) with significantly lower costs of products, goods and materials sold (by ca. PLN 778 million).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period lengthened to 63 days. On average after 63 days, the Group's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 30 June 2019 was -8 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 30 Jun. 2018	As at 31 Dec. 2018	As at 30 Jun. 2019	Change Q2 2019/ Q2 2018	Change Q2 2019/ 31 Dec. 2018
Employee provisions	157,776	165,156	173,822	10.2%	5.2%
Provision for real property tax	46,877	41,431	46,047	-1.8%	11.1%
Provision for the mine closure costs and land reclamation	124,529	124,207	138,412	11.1%	11.4%
Mining damage	4,233	3,184	2,956	-30.2%	-7.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	21,996	22,658	-	-100.0%	-100.0%
Other	12,365	11,883	12,154	-1.7%	2.3%
Total	367,776	368,519	373,391	1.5%	1.3%

The total provisions as at 30 June 2019 amounted to PLN 373,391,000, which means an increase by 1.3% compared to the value as at 31 December 2018.

Changes in provisions [PLN '000]	Change in Q2 2018	Change in Q2 2019	Change Q2 2019/Q2 2018	Change in H1 2018	Change in H1 2019	Change H1 2019/H1 2018
Employee provisions	-77	-667	766.2%	755	8,666	1,047.8%
Provision for real property tax	2,215	2,324	4.9%	4,524	4,616	2.0%
Provision for the mine closure costs and land reclamation	8,444	13,595	61.0%	10,081	14,205	40.9%
Mining damage	-113	-172	52.2%	-201	-228	13.4%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	327	-	-	656	-22,658	-
Other	-5,815	186	-	-5,278	271	-105.1%
Total	4,981	15,266	206.5%	10,537	4,872	-53.8%

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

[PLN '000]	Change of provisions in H1 2019	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	8,666	17,195	2,100	-	781	-11,410
Provision for real property tax	4,616	3,183	1,433	-	-	-
Provision for the mine closure costs and land reclamation	14,205	818	1,812	11,575	-	-
Mining damage	-228	-	-	-	-	-228
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-22,658	-16,398	-6,260	-	-	-
Other	271	229	149	-	-	-107
Total	4,872	5,027	-766	11,575	781	-11,745

[PLN '000]	Change in provisions in H1 2019	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	-667	4,089	1,052	-	781	-6,589
Provision for real property tax	2,324	1,592	732	-	-	-
Provision for the mine closure costs and land reclamation	13,595	509	906	12,180	-	-
Mining damage	-172	-	-	-	-	-172
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-	-	-	-	-	-
Other	186	91	76	-	-	19
Total	15,266	6,281	2,766	12,180	781	-6,742



Costs in LW Bogdanka S.A.

Costs by type

[PLN '000]	Q2 2018	Q2 2019	Change	H1 2018	H1 2019	Change
Net production ['000 tonnes]	2,424	2,293	-5.4%	4,519	4,825	6.8%
Sales ['000 tonnes]	2,374	2,405	1.3%	4,341	4,770	9.9%
Depreciation/amortisation	99,319	95,288	-4.1%	196,067	187,811	-4.2%
Materials and energy consumption	150,341	117,060	-22.1%	289,631	245,169	-15.4%
Outsourced services	126,070	129,261	2.5%	240,851	256,444	6.5%
Employee benefits	116,980	128,118	9.5%	262,331	263,950	0.6%
Entertainment and advertising costs	992	1,057	6.6%	3,261	3,206	-1.7%
Taxes, fees and charges	8,651	8,901	2.9%	19,560	21,147	8.1%
Other costs	14,671	561	-96.2%	15,567	1,571	-89.9%
Total costs by type	517,024	480,246	-7.1%	1,027,268	979,298	-4.7%
Cost of own work	-84,938	-65,948	-22.4%	-146,527	-126,021	-14.0%
Accruals and deferrals	18,176	28,031	54.2%	13,040	46,512	256.7%
Value of coal obtained from excavations	-32,849	-21,493	-34.6%	-61,456	-46,993	-23.5%
Provisions and other presentation adjustments between costs by type and by function	-6,202	1,711	-	-2,354	22,681	-
Total production cost	411,211	422,547	2.8%	829,971	875,477	5.5%
Change in products	-6,968	17,555	-	-27,733	-8,428	-69.6%
Costs of goods and materials sold	5,078	4,369	-14.0%	9,081	10,067	10.9%
Own cost of sales, including:	409,321	444,471	8.6%	811,319	877,116	8.1%
Costs of products, goods and materials sold	376,026	410,857	9.3%	740,355	808,849	9.3%
Selling costs	10,226	8,799	-14.0%	20,804	17,935	-13.8%
Administrative expenses	23,069	24,815	7.6%	50,160	50,332	0.3%

Q2 2019

In Q2 2019, LW Bogdanka S.A. incurred costs by type in the amount of PLN 480,246,000 (PLN -36,778,000 y/y), i.e. by 7.1% lower than in Q2 2018. The decrease in costs noted in Q2 2019 was largely influenced by, in particular, lower value of costs of consumption of materials and energy, depreciation/amortisation and other costs.

The value of depreciation and amortisation went down by 4.1% (to PLN 95,288,000) – the value of natural depreciation and amortisation fell (approx. PLN 5 million), and, at the same time, the depreciation of the right-to-use-asset (lease) was disclosed (approx. PLN 0.8 million). Total cost of materials and energy consumption went down by 22.1% compared to the second quarter of 2018, and totalled PLN 117,060,000. In the period under analysis the value of materials used dropped due to smaller scope of preparatory works by approx. 4.4 km.

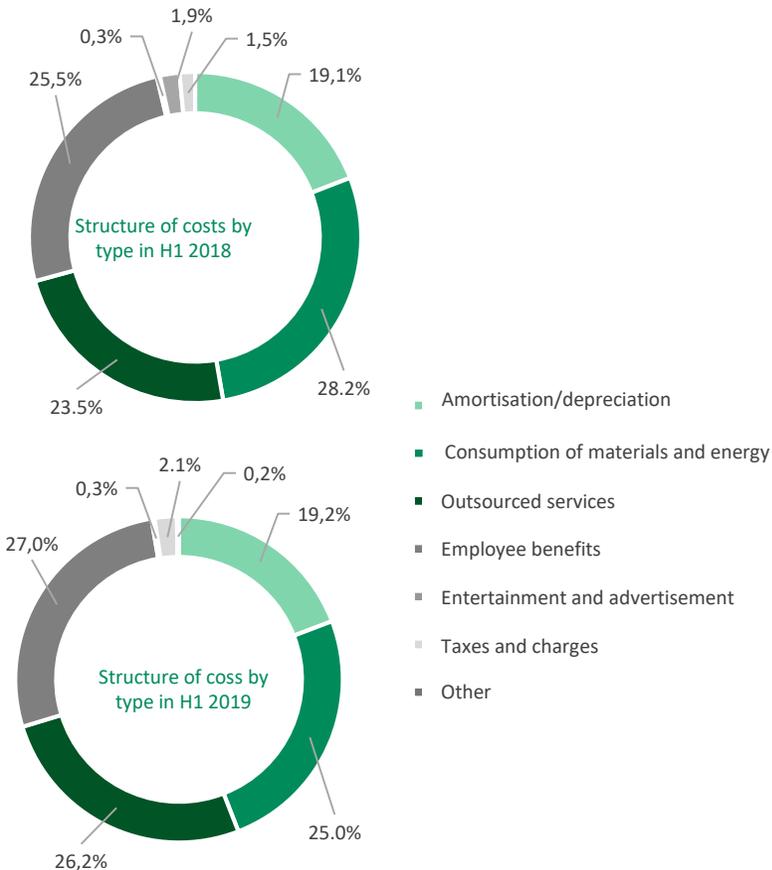
Compared to Q2 2018, the value of outsourced services in Q2 2019 went up from PLN 126,070,000 to PLN 129,261,000 (+2.5%). In the period under analysis, the Company recorded increases in costs of work on Saturdays and Sundays (PLN +3.9 million), drilling and mining services (PLN +3.8 million) and other services (PLN +3.1 million), and decreases in auxiliary and workday works (PLN - 2.9 million), other mining services (PLN -1.3 million), railway transport of coal (PLN -1.9 million) and repairs (PLN -1.3 million).

In Q2 2019, compared to Q2 2018, the value of employee benefits increased by PLN 11,138,000.



Costs in LW Bogdanka S.A.

Costs by type



H1 2019

In H1 2019, LW Bogdanka S.A. incurred costs in the amount of PLN 979,298,000, i.e. by 4.7% (PLN -47,970,000) lower than in the same period of 2018. The decrease of costs noted in the analysed period was largely influenced by the reduction in the costs of materials and energy consumption as well as in other costs.

The value of depreciation and amortisation went down by 4.2% (to PLN 187,811,000) – the value of depreciation of non-current assets and of natural depreciation went down. The drop in natural depreciation is a consequence of a lower gross extraction (by 177,000 tonnes).

The total value of materials and energy consumption decreased by 15.4% compared to H1 2018, and amounted to PLN 245,169,000. In the period under analysis, approx. 5.5 km less of excavations were made, the number of heading casing elements in use dropped (PLN 18 million), less parts were used for the JOY conveyor and cutting machine (PLN -8.4 million) and parts for the longwall coal-cutting machine and conveyor (PLN -4.4 million), less chains were used, rails for slackline cableways as well as cables and wires (PLN -7.4 million).

Compared to first six months of 2018, the value of external services in the same period of 2019 went up from PLN 240,851,000 to PLN 256,444,000 (+6.5%). In the period under analysis, the highest increases were recorded in the costs of:

- auxiliary works on working days (PLN +4.2 million),
- drilling and redevelopment of existing excavations (PLN +6.3 million),
- work on Saturdays and Sundays (PLN +7.6 million),
- other services - reclamation (PLN +4.7 million),

In H1 2019, compared to H1 2018, the value of employee benefits increased by PLN 1,619,000. In the period under analysis increase was recorded primarily in salaries (PLN +3.9 million) and overheads (PLN +2.3 million) as a result of higher average employment.

The expenses for entertainment and advertising remain at similar level and are related to the involvement of Lubelski Węgiel Bogdanka S.A. in a local sponsorship action, CSR promotion and social & cultural sponsorship activities.

The value of taxes, fees and charges paid in the analysed period of 2019 went up to PLN 21,147,000 from PLN 19,560,000 in the same period of 2018 – increases were recorded in the real property tax (PLN +0.2 million), service charge (PLN +1.0 million) as well as payments to the National Fund for the Disabled (PLN +0.6 million).

The value of other costs decreased from PLN 15,567,000 (H1 2018) to 1,571,000 (H1 2019) – in H1 2018 a new insurance policy was taken out with coverage of 18 months from the date of signing thereof.

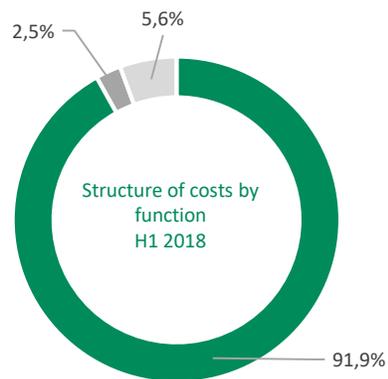
Having adjusted costs by type of the change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, we obtain own selling cost which for H1 2019 amounted to PLN 877,116,000. Comparing to the previous year, it is higher by 8.1%.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In H1 2019 (compared to the same period of the previous year) the share of depreciation and amortisation costs did not change (19.2%) as well as hospitality and advertising costs (0.3%); increases were recorded in the share of outsourced services (to 26.2%), employee benefits (to 27.0%) as well as taxes and charges (to 2.1%), while decreases were recorded in the share of materials and energy consumption (to 25.0%) and other costs (to 0.2%).

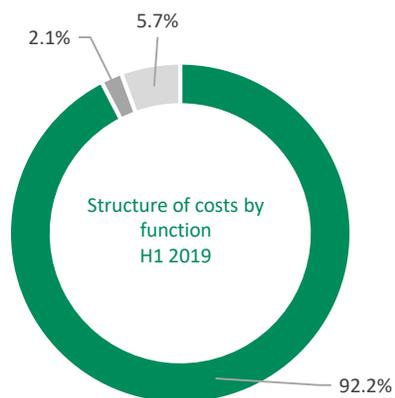


Costs in LW Bogdanka S.A.

Costs by function



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



- Koszt sprzedanych produktów, towarów i materiałów
- Koszty sprzedaży
- Koszty administracyjne

Costs by function

The cost of own production sold (by function) in Q2 2019 amounted to PLN 444,471,000 while in the analogous period of the previous year, it was PLN 409,321,000.

Own cost of production sold (by function) in H1 2019 was PLN 877,116,000 and was higher by 8.1% (PLN 65,797,000) than the cost incurred in the same period of 2018.

[PLN '000]	Q2 2018	Q2 2019	Change	H1 2018	H1 2019	Change
Net production ['000 tonnes]	2,424	2,293	-5.4%	4,519	4,825	6.8%
Sales ['000 tonnes]	2,374	2,405	1.3%	4,341	4,770	9.9%
Costs of products, goods and materials sold	376,026	410,857	9.3%	740,355	808,849	9.3%
Selling costs	10,226	8,799	-14.0%	20,804	17,935	-13.8%
Administrative expenses	23,069	24,815	7.6%	50,160	50,332	0.3%
Own cost of sales	409,321	444,471	8.6%	811,319	877,116	8.1%





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 Łęczynska Energetyka), plus cash held, guarantee the financing on an on-going basis. 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 values 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 excavations, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2019 and 30 June 2019, 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 June 2019 stood at PLN 391,726,000, of which:

- PLN 129,258,000 disclosed in non-current assets,
- PLN 262,468,000 is disclosed in current assets.

The amount of PLN 129,258,000 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 262,468,000 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 236,658,000, while the funds accumulated at subsidiaries amount to PLN 25,810,000 (primarily to Łęczynska Energetyka).

In addition to cash, the Group also discloses in the balance sheet Other current investments worth PLN 68,000 concerning deposits with the initial maturity of more than 3 months.

Assessment of factors an untypical events affecting the operating profit

The only event that had a material impact on the Group's result in H1 2019 was the judgement of the Supreme Court dated 4 April 2019 regarding the cassation appeal of the Social Insurance Institution (ZUS) in a dispute concerning accident contribution. The issue is discussed in more detail in Note 15 of the condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2019. Except for the above, in H1 2019 the Group did not see any untypical events, affecting its operating results.

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

The issue is discussed in more detail in Note 25 of the condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2019.



Information on financial instruments, bonds

Information on derivative financial instruments

As at 30 June 2019, the Parent did not hold any open derivative financial instruments.

Bonds

As at 30 June 2019 the Parent did not have active agreement regarding bond issue and had no issued and unredeemed bonds.

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

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.

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

LW Bogdanka did not publish projections of financial results for 2019.

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

Condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2019 were prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting". The financial statements were prepared using the same accounting principles for the current and comparative periods, except that IFRS 16 "Leases" was applied for the first time as of 1 January 2019. The issue is discussed in more detail in Note 2 of the condensed interim consolidated financial statements of the LW Bogdanka Group for the first half of 2019.

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

As of the date of preparing the Directors' Report on Operations of the Group for H1 2019 LW Bogdanka and its subsidiaries were not parties to proceedings pending before a court, a relevant authority for arbitration proceedings or a public administration authority, concerning:

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





Agreements concerning loans and borrowings



Information on loans granted

In H1 2019 the Company did not contract or grant any loans or terminate any agreements concerning loans.

Information on sureties provided and received

In H1 2019, LW Bogdanka S.A. and its subsidiaries did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In H1 2019, LW Bogdanka S.A. and its subsidiaries did not grant any guarantees.

Guarantees received by LW Bogdanka S.A.

As at 30 June 2019, LW Bogdanka S.A. did not order banks to issue guarantees.

Transactions with related undertakings

During H1 2019 the Parent and its subsidiaries did not conclude transactions with related entities which would be concluded on a basis other than an arm's length basis. Information about all agreements that are significant from the point of view of the Issuer's operations is published in the form of current reports available at <http://ri.lw.com.pl/raporty-biezace>. For more information about agreements with the Enea Group and companies controlled by the State Treasury see Note 28 of the condensed interim consolidated financial statements of the LW Bogdanka Group for H1 2019.

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 30 June 2019 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In H1 2019, the following Subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o., MR Bogdanka sp. z o.o., did not grant, incur or terminate agreements regarding credit facilities and loans.

In H1 2019 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 30 June 2019 [PLN '000]	Repayment period
16 December 2016	29 November 2019	mBank S.A.	100,000	WIBOR 1M + margin	-	Overdraft



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

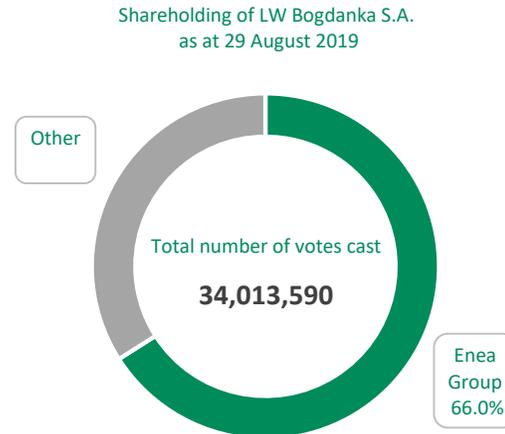
In H1 2019 LW Bogdanka S.A. and subsidiaries of LW Bogdanka S.A. did not acquire any treasury shares of the Company.

Changes in the shareholding structure by the date of the Report

According to the information of the Parent, no changes in the ownership structure of significant blocks of shares have occurred since the publication of the Consolidated Quarterly Report for Q1 2019.

Shareholding structure

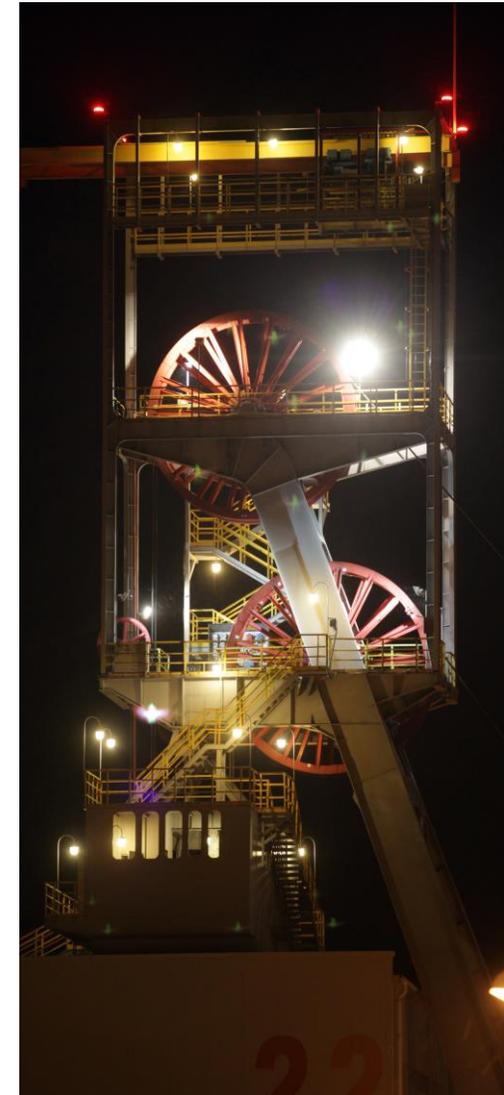
The graph below shows a shareholding structure of the Company as at 29 August 2019.



Participation of the LW Bogdanka's shares in indices

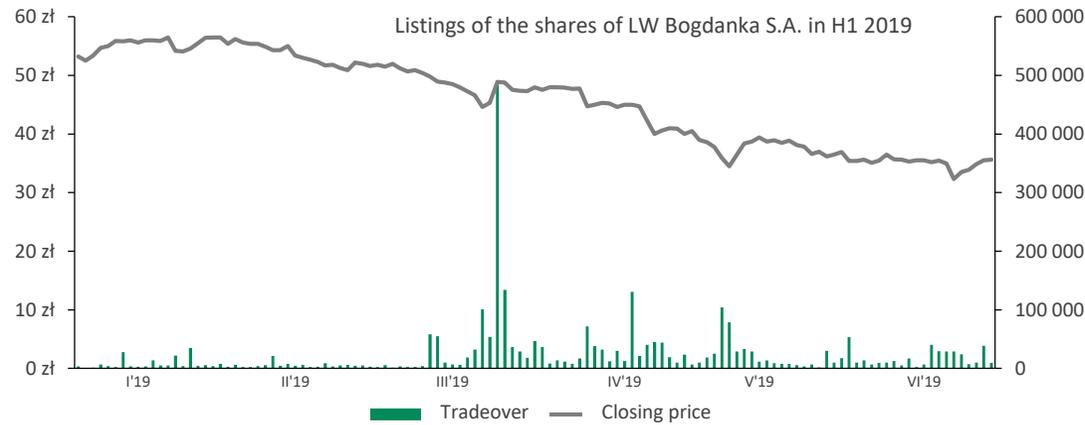
The Company was first listed on the Warsaw Stock exchange on 25 June 2009. During H1 2019, LW Bogdanka S.A. made part of the following indices:

- WIG – includes all companies listed on the WSE Main Market that meet the baseline criteria of the participation in indices.
- mWIG40 – includes 40 medium-sized companies listed on the WSE Main Market. The Company has been present in this index since 18 December 2015;
- WIG Górnictwo – includes companies classified into the “Mining” sector (former name of the sector was “Raw Materials”).
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices.
- WIGdiv – includes 30 companies that are in the top 150 in the index ranking (prepared on the basis of Resolution No. 871/2013 of the WSE Management Board, as amended) and show the highest dividend yield at the end of November each year and have paid dividends at least three times in the last 5 financial years.
- Respect Index – index of socially responsible companies.





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

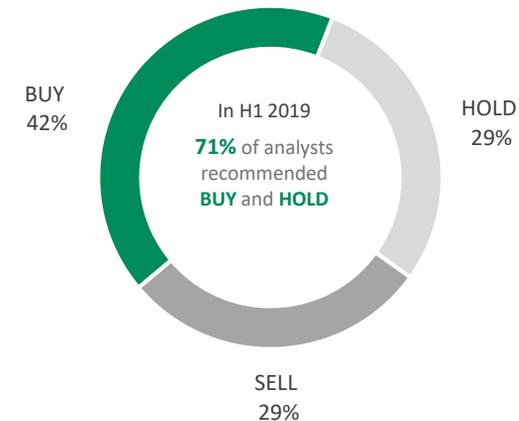


Key share indicators:	H1 2017	H1 2018	H1 2019
Maximum price [PLN]	83.80	70.70	56.50
Minimum price [PLN]	59.00	45.20	32.30
Last price [PLN]	66.75	53.90	35.60
Average price [PLN]	70.98	56.82	45.81
Capitalisation at end of period [PLN million]	2,270.41	1,833.33	1,210.88
Book value [PLN million]	2,342.95	2,963.14	3,121.90
Price/earnings ratio	16.3	27.6	6.12
Price/book value	0.97	0.62	0.39
Average turnover per session [PLN '000]	1,435.3	787.4	1,008.0
Average volume per session	20,249	13,851	22,917
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590

Analysts' recommendations*

Date of Issue	Institution	Recommendation	Target price	Price on the date of issue
17 January	IPOPEMA Securities	Sell	PLN 48.39	PLN 60.71
21 January	Santander	Hold	PLN 62.70	PLN 56.50
30 January	Societe Generale	Hold	PLN 60.00	PLN 56.50
31 January	BOŚ DM	Buy	PLN 78.00	PLN 54.20
4 February	PKO BP Securities	Sell	PLN 50.00	PLN 55.60
21 February	Haitong	Buy	PLN 64.90	PLN 51.80
25 March	Santander	Hold	PLN 55.00	PLN 48.80
1 April	Societe Generale	Hold	PLN 51.00	PLN 48.00
8 April	PKO BP Securities	Sell	PLN 40.00	PLN 44.75
9 April	BOŚ DM	Buy	PLN 68.00	PLN 45.00
16 April	Vestor DM	Buy	PLN 60.00	PLN 45.00
23 April	IPOPEMA Securities	Sell	PLN 36.42	PLN 40.00
21 May	Santander	Buy	PLN 48.00	PLN 38.90
12 June	PEKAO IB	Buy	PLN 59.80	PLN 35.60

*The above information is the summary of broker recommendation within the meaning of the Delegated Regulation of the Commission (EU) 2016/1958 dated 9 March 2016.





Shareholding structure

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

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.

In Q3 2018 the Parent and all beneficiaries of the Scheme (the persons to whom option may be granted) concluded arrangements under which Scheme participation agreements of the beneficiaries were terminated. Each beneficiary was paid compensation of PLN 1. Upon conclusion of the above arrangements the Management Options Scheme was ultimately closed.

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.

Name and surname	MANAGEMENT BOARD				
	The number of the Company shares as of 29 August 2019	Par value of the shares (PLN)	The number of the Company shares as of 28 May 2019	Par value of the shares (PLN)	Number of shares in subsidiary companies
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				
	The number of the Company shares as of 29 August 2019	Par value of the shares (PLN)	The number of the Company shares as of 28 May 2019	Par value of the shares (PLN)	Number of shares in subsidiary companies
Mirosław Kowalik	0	0	0	0	0
Szymon Jankowski	0	0	0	0	0
Izabela Antczak-Bogajczyk	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	253	1,265	253	1,265	0

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



5

Governing bodies



Composition of the Management Board of LW Bogdanka S.A. as at 29 August 2019

On 15 May 2019, the Company's Supervisory Board adopted resolutions on the appointment, as of 19 June 2019, of the Management Board to the new term of office in the following composition:

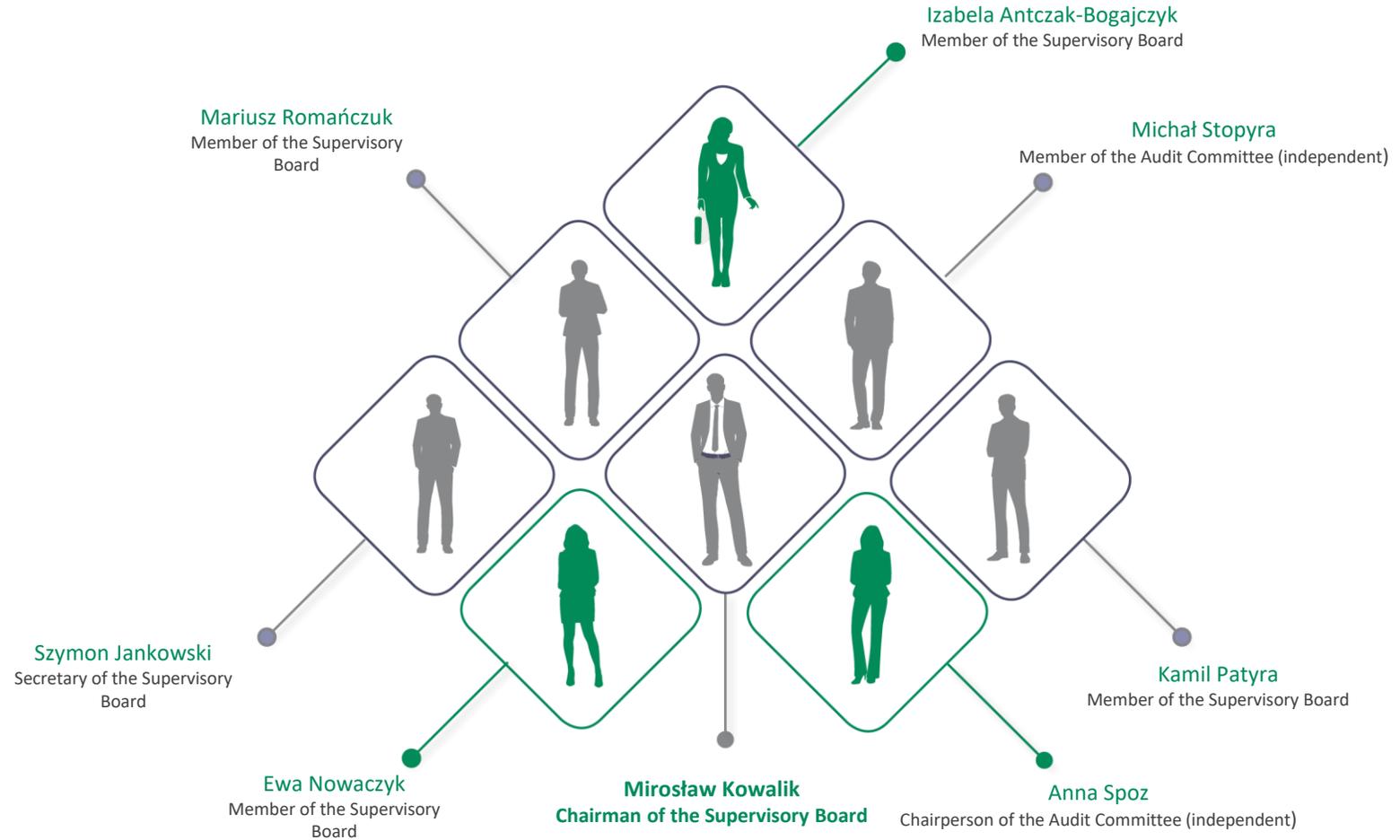
	<p>Artur Wasil President of the Management Board</p>	<p>Graduated in 2002 from the Faculty of Mining at the AGH University of Science and Technology in Krakow, with a degree in Mining and Geology, specialising in Mining Geotechnics. In 2002 he joined Lubelski Węgiel Bogdanka S.A. where he went through 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.</p>
	<p>Artur Wasilewski Vice-President of the Management Board Economic and Legal Affairs</p>	<p>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.</p>
	<p>Adam Partyka Vice-President of the Management Board, Employee and Social Affairs</p>	<p>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 S.A. 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.</p>
	<p>Dariusz Dumkiewicz Vice-President of the Management Board Development</p>	<p>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.</p>



Composition of the Supervisory Board of LW Bogdanka S.A. as at 29 August 2019

Changes in the composition of the Supervisory Board

On 25 July 2019 the composition of the Supervisory Board changed. The Extraordinary General Shareholders Meeting of LW Bogdanka S.A. removed Mr Przemysław Krasadomski from the Company's Supervisory Board and appointed Ms Izabela Antczak-Bogajczyk on his place.





Composition of the Company's Supervisory Board as at 29 August 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.

Izabela Antczak-Bogajczyk

Graduated with honours from the Faculty of Law and Administration of the Adam Mickiewicz University in Poznań. She holds the title of attorney-at-law and is entered into the Register of Attorneys-At-Law of the Poznań Bar Association. She attended numerous legal, financial and economic courses and conferences. She has many years of experience in the area of economic life. She provided services to both business entities and natural persons, cooperated with public health care facilities, and supported consumer organisations. She joined the ENEA Group in 2009 as attorney-at-law for ENEA Operator sp. z o.o., where she dealt with issues related to the

Polish energy market, including issues concerning the functioning of distribution system operators. Next, she joined ENEA Centrum sp. z o.o. and ENEA S.A. in the capacity of attorney-at-law. She has held the position of the Manager of Legal Services Office of ENEA S.A. since 2017. She was a Member of the Supervisory Board of ENEA Serwis sp. z o.o. from January 2018 to July 2019.

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 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 seated in Supervisory Boards in such companies as Energetyka Poznańska Zakład Transportu sp. z o.o., Szpital Uzdrowski ENERGETYK sp. z o.o.

Kamil Patyra

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 Krakow. 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, Michał Stopyra was a member of the Supervisory Board in Techniczno Górnicza Spółka Akcyjna TEGONA S.A. in Katowice. From 2013, he has been acting as a member of the Supervisory Board of LW Bogdanka S.A.



Glossary



- **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
- **PTE** – Technical and Business Plan
- **LWB** – Lubelski Węgiel Bogdanka S.A.
- **IFRS** – International Financial Reporting Standards
- **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
- **WFOŚiGW** – the Provincial Fund for Environment Protection and Water Management
- **Debt ratio** – ratio of total liabilities to total assets
- **Debt to equity ratio** – ratio of total liabilities to equity
- **Non-current assets to equity ratio** – ratio of the sum of equity, non-current liabilities, non-current accruals and non-current assets
- **Current debt ratio** – ratio of current debt to total assets
- **Non-current debt ratio** – ratio of non-current liabilities to equity
- **Current liquidity ratio** – ratio of current assets and current liabilities
- **Quick liquidity ratio** – define a company's ability to meet its short-term obligations with its most liquid assets



Signatures of all Members of the Management Board

Artur Wasil

President of the Management Board

Adam Partyka

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

Artur Wasilewski

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

Dariusz Dumkiewicz

Vice-President of the Management Board,
Development

Bogdanka, 29 August 2019



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