



2019

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



**Lubelski Węgiel
Bogdanka S.A.**

one of the leading hard coal producers in Poland, standing out in the industry in terms of financial performance, productivity, and investment plans to access new deposits.

Share in the hard coal market in Poland

15.8%

Share in the thermal coal market in Poland

20.8%

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

26.8%



Dear Sirs and Madams,

It is my pleasure to provide you with the consolidated annual report of the LW Bogdanka Group for 2019.

It was a year when a record-breaking figure was noted with respect to the mining history of Bogdanka, reaching almost 9.45 million of commercial coal; it was also a year when we closed the sales plan at a level of 9.4 million tonnes.

Higher extraction combined with an increase in our contract prices in the previous year as well as a better yield (64.1% in 2019 compared to 60.5% a year before) translated into very good financial results. Our revenue for that period amounted to PLN 2.2 billion (up by 22.8%), EBITDA – PLN 767.6 million (+63.6%), net profit – PLN 308.7 million (+473.9%). 83% of our sales were performed within the Enea Group, i.e. to Enea Wytwarzanie sp. z o.o. and Enea Elektrownia Połaniec S.A.

We retain a strong market position achieving in 2019 the share in the market of thermal coal sales of 20.8%, and the share in the market of thermal coal sales to commercial power plants of 26.8%.

At the end of last year Bogdanka has obtained from the Minister of Climate a mining licence for the extraction of hard coal from the “K-6, K-7” deposit in the Cyców Mining Area, with the exploitable resources of about 66 million tonnes. This has increased our resource base and allows us to better plan the production in the long term. As the K-6, K-7 deposit is situated in a direct vicinity of deposits currently exploited by us, we are planning to start, in a several years perspective, the extraction on the basis of the existing infrastructure in the Stefanów Field.

We continue to improve our efficiency, striving to better the operational excellence. In the past year it was reflected in certain top achievements: monthly production (903.5 tonnes in January 2019), the biggest longwall progress by the ploughing technique (432 metres in July 2019), the highest daily extraction from one wall by the ploughing technique

(33,612 tonnes of coal, on 23 October 2019). Even if we do not aim at breaking records, they are a consequence of our continuous efforts to search for new solutions and confirm the Company's potential, its high technical culture and involvement of our employees and possibilities which yet await us.

We publish this annual report in the time of concerns and doubts as to the ongoing pandemic whose consequences for the economy can hardly be predicted.

As at the report publication date no interruptions in our production were observed in connection with epidemic-related restrictions. Nevertheless, we attentively monitor the situation and have taken an array of actions with a view to minimising any threats for our employees' and contractors' safety, thus mitigating the related risk for continuity of our operations. We have implemented relevant procedures at work, increased the availability of protective gear and disinfectants, reduced contacts with the external parties and implemented a number of other actions. The whole situation is controlled by a crisis management center and working teams, alert to an immediate response at any moment. The Group's employees show responsibility and understanding to all taken measures and implemented precautions, which allows us to maintain uninterrupted continuity of mining.

As at the date of publication of these financial statements it is very difficult to predict how the situation will develop, and what adverse consequences (if any) for the Company's operating activity and its results it will bring. Possible risks are described in this report.

We are dedicated to facing all possible challenges strongly and effectively. We have at our disposal all tools to do that – as the most efficient coal mine

in Poland we generate sound financial results, do not have debts, and our stability is additionally reinforced by the fact of being a part of the Enea Group. Our goal is to further strengthen the position of LW Bogdanka as the most efficient and most modern Polish mine and build the Company's value for all shareholders.

Sincerely,

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



1. Summary of Operational Activities	5-7		
Selected financial data	6		
Key events in 2019	7		
2. Organisation and Business Activities of the LW Bogdanka Group	8-45		
Structure of the Group	9-10		
Description of operations	11-13		
Development strategy of the Group	14-16		
Investment projects	17-19		
Licences	20		
Agreements	21-23		
Business environment	24-28		
Managing risk	29-38		
Employment	39-42		
Salaries	43		
Other information	44-45		
3. Financial Standing	46-67		
Production, sales and inventories of coal	47		
Revenue and key customers of the LW Bogdanka Group	48		
Financial highlights of the LW Bogdanka Group	50-50		
Balance sheet of the LW Bogdanka Group	51		
Cash flow of the LW Bogdanka Group	52		
Economic indicators of the LW Bogdanka Group	53-54		
Provisions of the LW Bogdanka Group	55		
Revenue and key suppliers of LW Bogdanka S.A.	56		
Financial highlights of LW Bogdanka S.A.	57-58		
Balance sheet of LW Bogdanka S.A.	59		
Cash flow of LW Bogdanka S.A.	60		
Economic indicators of LW Bogdanka S.A.	61-62		
Provisions in LW Bogdanka S.A.	63		
Costs in LW Bogdanka S.A.	64-66		
Other information with influence on the financial standing on the LW Bogdanka Group	67		
4. Shares and Shareholding	68-74		
Share capital structure and shareholding at the Parent	69		
Holdings of shares in LW Bogdanka S.A. by members of the Parent's bodies	70		
Dividend policy	71		
Price performance of the shares of LW Bogdanka S.A. on the Warsaw Stock Exchange	72		
Investor relations	73		
Analysts' recommendations	74		
5. Governing Bodies	75-81		
Management Board of the Parent	76		
Supervisory Board of the Parent	77-78		
Changes in the composition of the Company's Management Board and Supervisory Board	79		
Rules of appointment and remuneration; salary levels	80-81		
6. Corporate Governance	82-92		
Statement on application of corporate governance and diversity policy	83-86		
Governing bodies of the Group	87-92		
7. Statement on Non-Financial Information	93-112		
The Group and its business model	94		
Employee matters	95-99		
Social matters	100-106		
Environmental matters	107-109		
Human rights and anti-corruption matters	110-112		
Glossary	113-114		



1

Summary of operations



Operating data

Gross coal extraction – 14.7 million tonnes

Production of commercial coal – 9.5 million tonnes

Yield – 64.1%

Sale of commercial coal – 9.4 million tonnes

New excavations – 29.1 km

Workforce

Headcount at the end of 2019 – 5,654 FTJs

Increase in headcount comparing to 2018 – 5%

Financial data

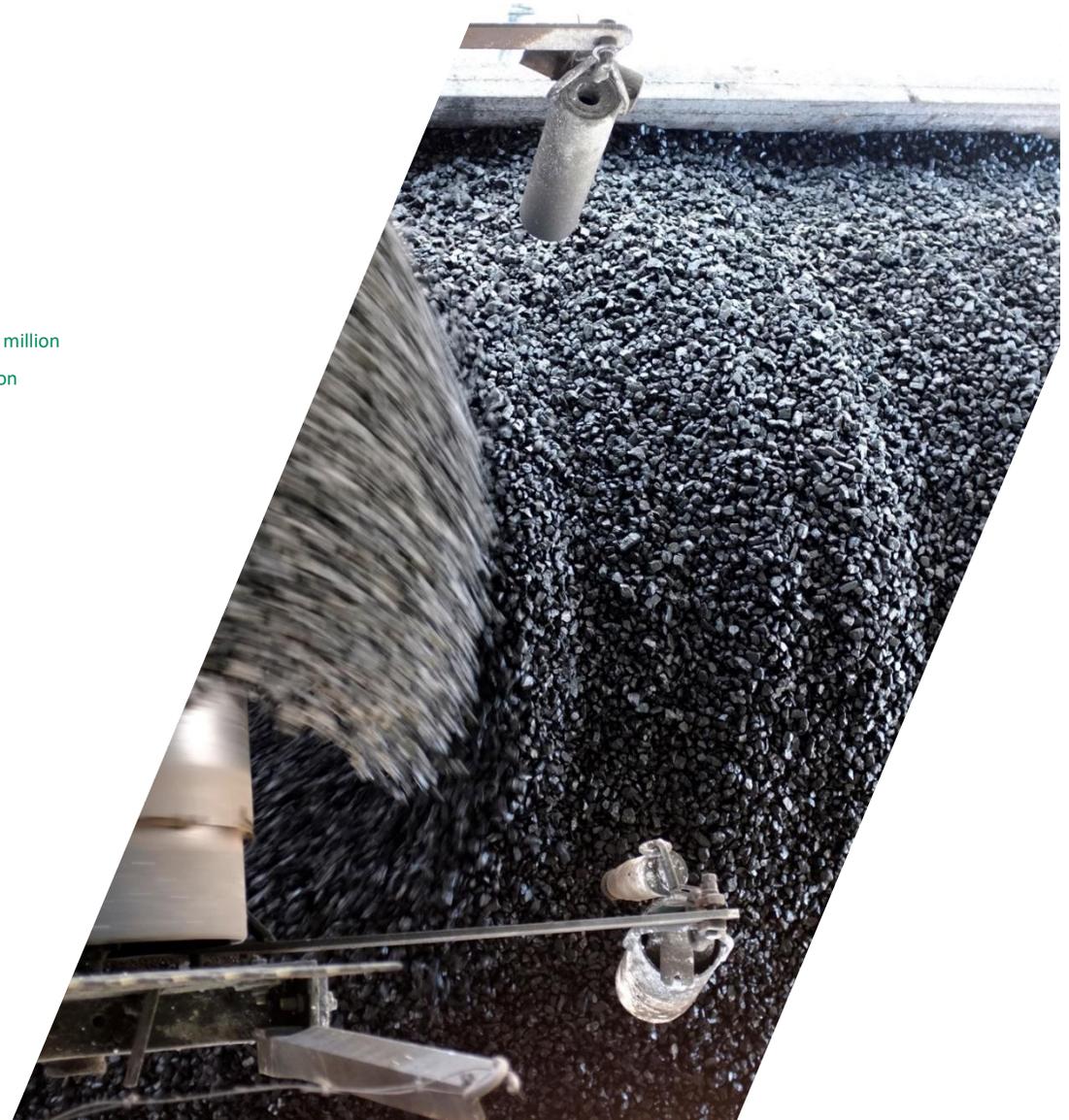
Revenue on sales – PLN 2,157.9 million

Profit on sales – PLN 358.4 million

EBIT – PLN 375.2 million

EBITDA – PLN 767.6 million

Net profit – PLN 308.7 million





Key events in 2019

Q1 2019

- resignation of a Management Board member - Mr Marcin Kapkowski

Q2 2019

- decrease in TFI PZU S.A. investments funds' share below 5%
- release of the provision for Social Security Institution's (ZUS) claims related to contribution for accident insurance
- concluding an Annex with Enea Elektrownia Połaniec S.A. with provisions for 2021
- appointment of the Management Board of LW Bogdanka S.A. to the new term of office
- session of the Annual General Shareholders Meeting of LW Bogdanka S.A.
- adopting a resolution regarding payment of dividend from the 2018 profit

Q3 2019

- changes in the Supervisory Board of LW Bogdanka S.A.

Q4 2019

- session of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A.
- concluding an annex to the agreement with Grupa Azoty Zakłady Azotowe Puławy S.A.
- concluding an annex to the Long-Term Agreement with ENERGA Elektrownie Ostrołęka S.A.
- obtaining of a hard coal mining licence for the "Lublin Coal Basin — areas K-6 and K-7" deposit
- conclusion of an Annex to the Long-term Agreement with ENEA Wytwarzanie Sp. z o.o.
- concluding an Annex with Enea Elektrownia Połaniec S.A.

Key events after the balance-sheet date

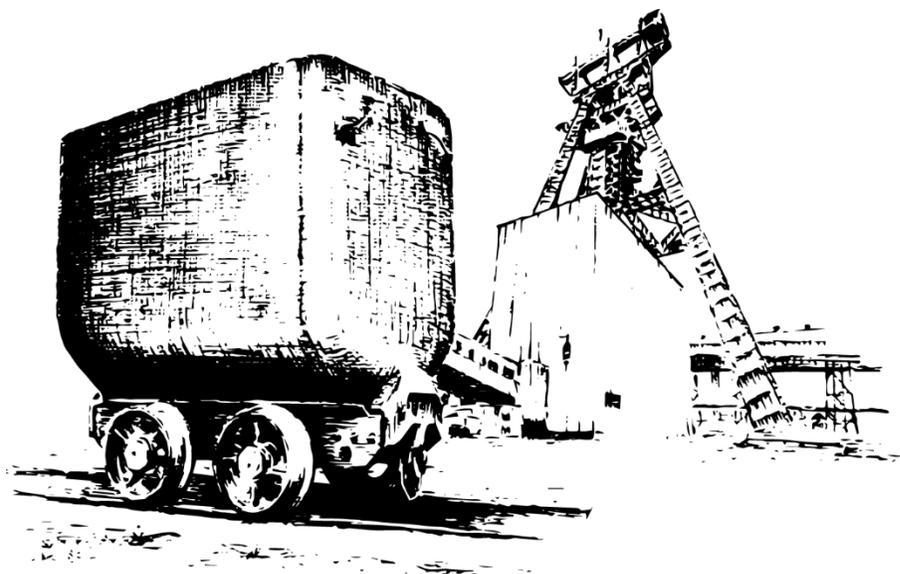
- court registration of the amendments in the Articles of Association of LW Bogdanka S.A.





2

Organisation and business activities
of the LW Bogdanka Group



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

Lubelski Węgiel Bogdanka Spółka Akcyjna

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

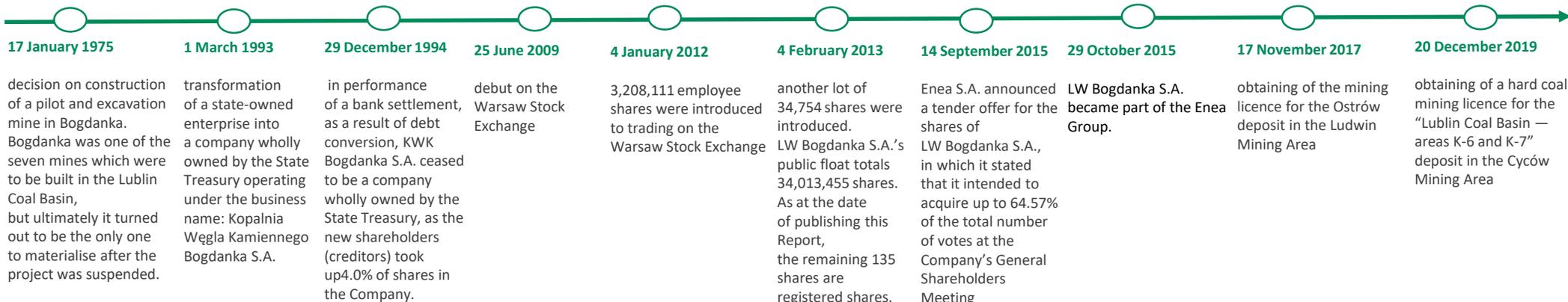
Legal form and regulations which provide a basis for the Company's activities

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

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

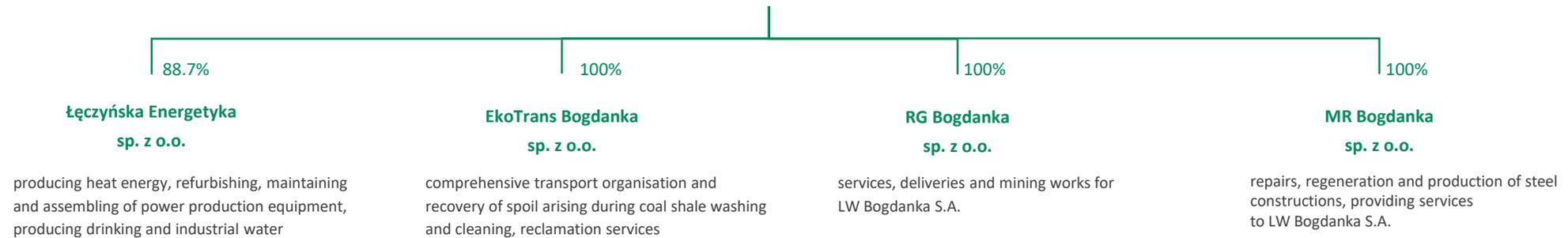
The founder of the Company is the State Treasury, represented by the Minister of the State Treasury. The Company may operate in Poland and abroad. The Company was established for an indefinite term.

History in brief





THE LUBELSKI WĘGIEL BOGDANKA GROUP



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

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

In order to make the rules of management of LW Bogdanka S.A. more precise, the following were introduced in 2019:

- amendments to the Company's Organisational Rules and the Organisation Chart,
- updated policy of Personal Data Protection applicable at the Company,
- temporary distribution of responsibilities of the Vice-President of the Management Board, Procurement and Investments
- Appendix 17 to the Rules of Work and Bonus Payments to Sales Representatives dated 29 November 2017, being an Annual Sales Plan for coal goods in 2019
- principles of granting, registering, return and archiving powers of attorney (authorisations) issued by the Company,
- rules of procedure regarding incoming letters from courts, prosecutor's office and the police
- defining rules for signing cover letters to agreements, annexes, arrangements to which LW Bogdanka S.A. is a party
- uniform Terms and Conditions of Coal Sales
- rules for the granting of contracts which are not subject to the Public Procurement Law
- rules for using car fleet at LW Bogdanka S.A.
- rules for public procurement awards by LW Bogdanka S.A. for social services and other specific services with the value of up to EUR 1,000,000
- day-to-day technical and formal supervision over the execution of concluded agreements,
- including charging liquidated damages for their inconclusive performance and controlling payment deadlines
- Uniform Rules of Work,
- guidelines regarding LWB's CERT Team and reporting incidents in the national cybersecurity system at LW Bogdanka S.A.
- update of the Project Management Methodics at the LW Bogdanka Group, the Rules for Project Categorisation at the LW Bogdanka Group, and the Rules for Updating Key Project List at the LW Bogdanka Group
- updated Instruction of rules and manner of inventory taking at LW Bogdanka S.A.
- updated Accounting Policy of the Company and the LW Bogdanka Group companies

The Company has updated its existing documentation and introduced the new ones in order to increase transparency and streamline a delivery service process.

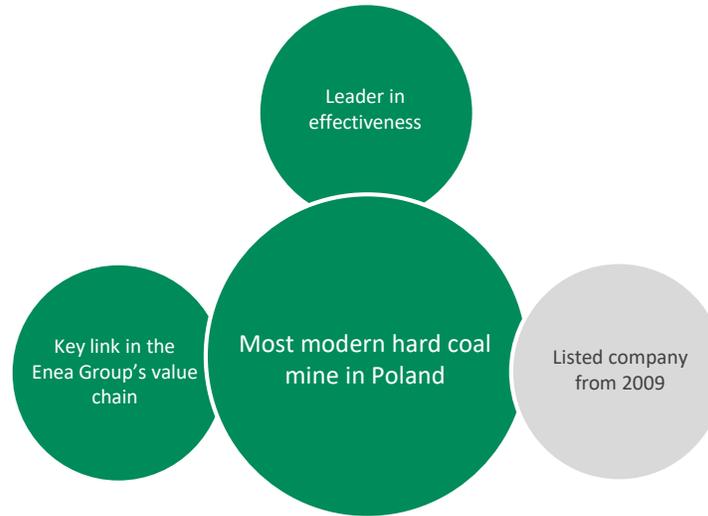


LW Bogdanka S.A. is one of the leading hard coal producers in Poland, standing out in the industry in terms of financial performance, productivity, and investment plans to access new deposits. The thermal hard coal sold by the Company is mostly used to produce electricity, heat and cement. The Company's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



LW Bogdanka S.A. has three excavation fields:

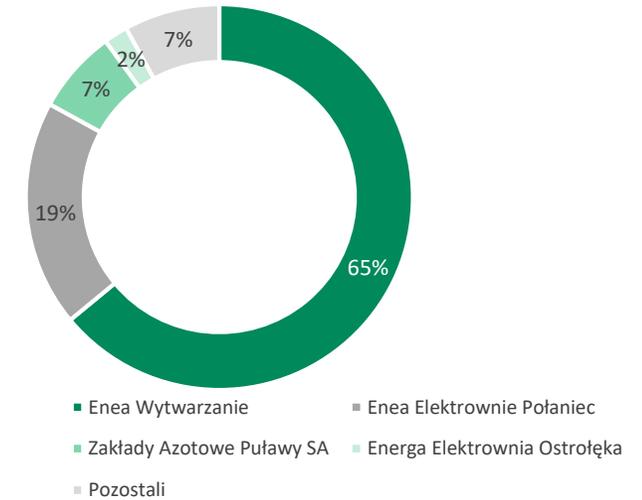
- Bogdanka
- Nadrybie
- Stefanów



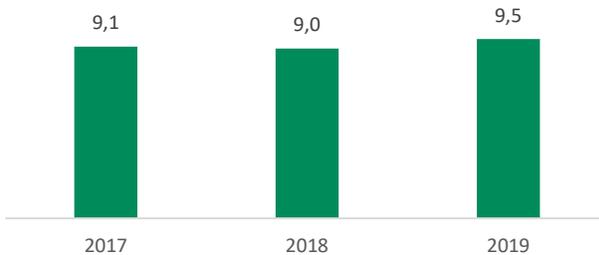
Key customers [% of share in revenue]

The Company's main customers include:

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



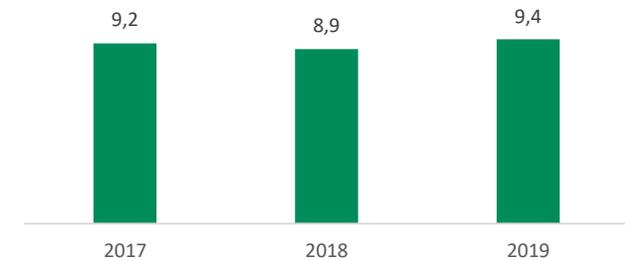
Production [million tonnes]



In 2019, the coal production structure was as follows:

- fine coal – 99.3%
- nut coal – 0.0%
- pea coal – 0.7%

Sale [million tonnes]



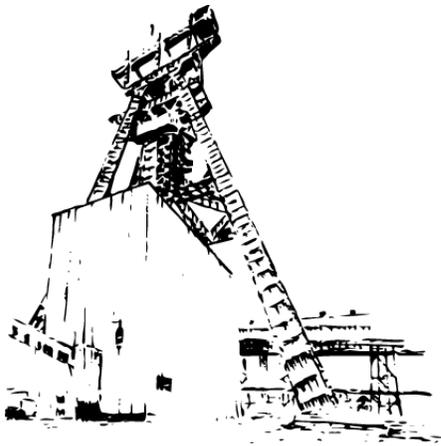


Cutting-edge technologies

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

Cost control

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



Licences obtained

The Company holds four mining licences for extraction of hard coal from the following deposits:

- Bogdanka (Puchaczów V)
- Stręczyn, K-3
- Ostrów
- K-6, K-7

Assuming annual coal production at the level of about 9.0 million tonnes, the resources of the areas considered to be of key importance to the 2030 Strategy alone will ensure about 50 years of continuous exploitation.



Towards a Smart Mine

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

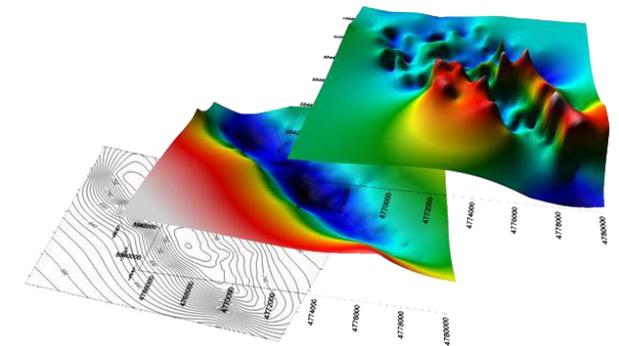
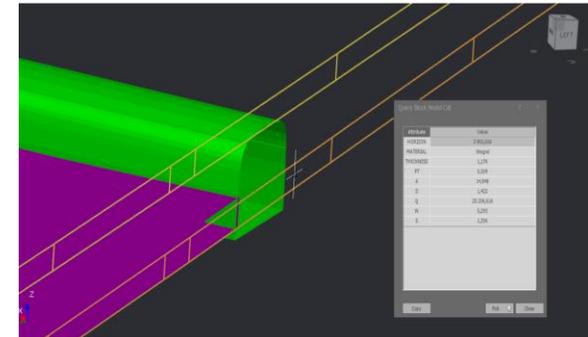
- our staff – highly skilled, sharing our advanced technology-oriented culture, and focused on efficient cooperation and common goals
- our machines and equipment – highly efficient, reliable, energy saving, well chosen to existing geological and mining conditions, and enabling the mechanisation of both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

The Company has a deposit management system:

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

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

- Map of underground infrastructure facilities
- Central database.





Production potential of LW Bogdanka S.A.

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

- Bogdanka Field
- Nadrybie Field
- Stefanów Field

Shafts of the mine are located in:

- Bogdanka
- Nadrybie
- Stefanów

While the lifting shafts are located in:

- Bogdanka
- Stefanów

The Company holds four mining licences for extraction of hard coal:

- Bogdanka deposit, covered by the "Puchaczów V" mining area (seams 382, 385/2, 389 and 391) with the area of 73.3 sq. km, located in the Communes of Cyców, Ludwin and Puchaczów in the Lublin Province
- K-3 deposit, covered by the "Stręczyn" mining area (seams: 379/2, 385/2, 391) with the area of 9.38 sq. km, located in the Communes of Cyców and Puchaczów in the Lublin Province
- Ostrów deposit in the Ludwin mining area, situated in the area of Ludwin, Łączna, Ostrów Lubelski, Sosnowica, Uścimów and Puchaczów communes and municipalities, with an area totalling 78.67 sq. km; mining will be carried out in seams 377/1, 379, 382 and 385/2
- K-6, K-7 deposit in the Cyców mining area, situated in the area of Cyców commune, with an area totalling 51.78 sq. km; mining will be carried out in seams 379, 380, 382, 387, 389 and 391.

Hard coal reserves - Bogdanka (Puchaczów V) - updated as at 31 December 2019

Reserves [million tonnes]	year				Difference 2019-2018
	2016	2017	2018	2019	
Total balance	763.9	754.0	746.8	742.6	-4.2
Industrial	280.0	269.1	262.0	247.3	-14.7
Operating reserves	210.6	203.0	195.9	185.7	-10.2

In 2019, upon approval of the Ministry of Environment, the Company reclassified and updated a portion of resources

Hard coal reserves - Stręczyn – K-3 - updated as at 31 December 2019

Reserves [million tonnes]	2019
Total balance*	146.7
Industrial	27.5
Operating reserves	22.2

*Balance reserves (covered by the licence)

In 2019, upon approval of the Ministry of Environment, the Company reclassified and updated a portion of resources

Hard coal reserves - Ostrów - updated as at 31 December 2019

Reserves [million tonnes]	2019
Total balance*	1,251.4
Industrial	250.8
Operating reserves	171.7

*Balance reserves (covered by a licence)

Hard coal reserves - K-6, K-7 - updated as at 31 December 2019

Reserves [million tonnes]	2019
Total balance*	654.4
Industrial	91.1
Operating reserves	65.6

*Balance reserves (covered by a licence)





Development strategy of LW Bogdanka S.A.

On 9 February 2017 the Parent announced its Development Strategy of LW Bogdanka S.A. - Mining Area of the Enea Group until 2025 (under the 2030 framework), including the dividend policy. The adopted strategy reflects the 2030 Development Strategy of the Enea Group as it covers, among other things, activities to meet the rising demand for thermal coal on the side of power and cogen plants from the Generation Area of the Enea Group and to implement 10 strategic initiatives planned by the Enea Group for the Mining area.

Vision

Bogdanka is a strong link in the value chain of the Enea Group and the efficiency leader in the mining sector with the highest work safety standards.

Mission

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

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

- **baseline scenario**, which assumes average production at a level of about 8.5 million tonnes over 2017-2025 and capital expenditure amounting to PLN 3.7 billion (in nominal terms) in 2016-2025;

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

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

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

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

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

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

1. Close cooperation and utilisation of synergies in the Kozienice-Bogdanka-Polaniec mining and power generation area
2. Efforts to double the exploitable resources on the basis of the Ostrów deposit and to extend the mine's life to about 50 years
3. Implementation of strategic initiatives which include:
 - feasibility study of construction of an integrated gasification cycle (IGCC) system for production of fuel for power generation within the ENEA

Group

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

Until 2030, a key direction for the Parent will be the development of infrastructure in the Ludwin Mining Area (Ostrów deposit) - according to preliminary estimates the Parent will spend there about PLN 1.2 – 1.3 billion (in real terms) after 2025.

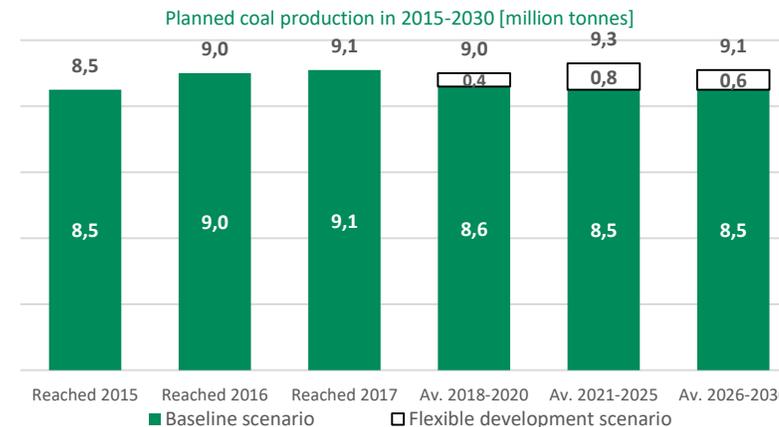
This project is to ensure that the shaft complex in the Bogdanka Field can continue coal extracting after 2030.

Corporate social responsibility (CSR)

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

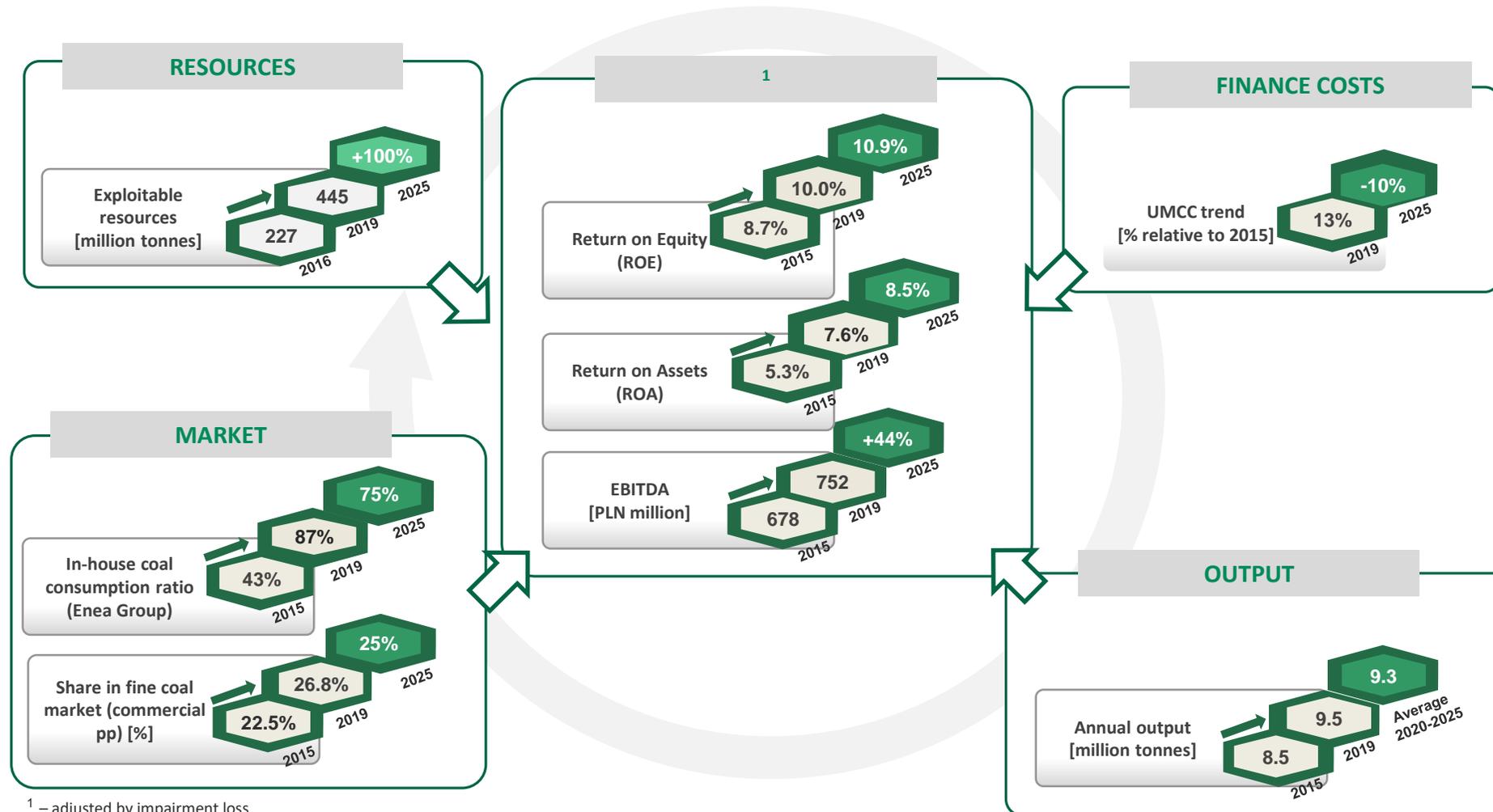
Dividend policy

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





Pursuance of LW Bogdanka S.A.'s strategy in 2019



¹ – adjusted by impairment loss



Development strategy of the subsidiaries

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

The Management Board defined the following strategic goals for the Company, to be pursued in the years to come:

- 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 2020-2021 (cooling fire-extinguishing water tank)
- 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 2022-2023 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 of MR Bogdanka sp. z o.o.

The company's strategic goals include:

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

The company's main objectives include:

- modernisation and repairs of mining machinery and equipment
- manufacture general purpose steel structures in accordance with all formal and legal requirements
- works related to manufacture and regenerate mass products used by the Parent
- repair and adaptation services for the office and administrative infrastructure on the surface.

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

In 2020 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 of RG Bogdanka sp. z o.o.

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





Investment projects completed in 2019

In 2019, LW Bogdanka S.A. performed the planned investment tasks. In this respect, in 2019, capital expenditure for non-current assets totalled PLN 399,963,000.

The plan for 2019 included groups of tasks: development and replacement investments, including the purchase of machines and equipment, their modernisation and repairs, enlargement of the mining waste neutralization facility as well as operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, etc.

DEVELOPMENT AND REPLACEMENT INVESTMENTS IN LW BOGDANKA S.A.



Ostrów Field – design works – a programme & zoning concept along with the concept of monitoring natural environment were developed; the Regional Environmental Protection Directorate in Lublin issued a decision whereby the Company is required to carry out an assessment of environmental impact of the planned investment.

Machine park

Purchase and assembly of new machines and equipment – in 2019 LW Bogdanka S.A. purchased and assembled machines and equipment for a total amount of PLN 7,337,000, including costs of assembling. The most important items include: belt conveyors, sifters, dedusters, manoeuvre tractors and diesel tractors, ventilation locks, sifters, Glinik crusher, device for lining disassembly in front of a wall, haulage system of waste rock from the floor dinting.

Purchases of finished goods (machines and equipment) – the finished goods worth PLN 27,649,000 were purchased. The most important items included: ready-made transportation devices (including braking trolleys, HUPA, hoists, mine transportation units), hydraulic pumps and aggregates, electric devices (including motors, electric equipment, flameproof transformer stations, flameproof bay of substation), and other ready-made devices.

Upgrades of machines and equipment – PLN 9,576,000 was assigned for an upgrade of a cutting machine, suspended locomotives, hoists, belt conveyor, and wall electric equipment.

Upgrades and repairs of machines and equipment and longwall systems – the amount of PLN 12,439,000 was assigned for periodical wagon repairs, wall conveyor and longwall coal-cutting machine.

Enlargement of the mining waste neutralisation facility in Bogdanka – PLN 2,346,000 for works carried out as part of Stage I Part 2 with respect machines and electrical equipment. Design works are underway regarding enlargement as part of Stage II.

Switching stations and other electromagnetic systems – PLN 11,702,000 – investments included the upgrade of main fans in shaft 1.4, upgrade of driving system, shaft signalling of hoist machine in shaft 1.3.

MCCP replacement projects – PLN 5,341,000 was assigned for further modernisation of steel structures and MCCP facade, installation of electromagnetic separators and installation of pulsators on dust containers.

Construction and modernisation of facilities and installations related to core operations – PLN 10,775,000 - the investment includes modernisation of the central air conditioning system in Stefanów worth PLN 5,934,000, the remainder was used for modernisation of workshop building and other purposes.

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 whole 2019 was equal to 25.1 km (all 26.4 km) with the value of PLN 226,358,000.

Modernisation of workings with respect to reconstruction of galleries and vertical excavations was performed in accordance with the adopted schedules. Their total value amounted to PLN 69,054,000.

New licences

In 2019, hard coal mining licence for the “Lublin Coal Basin — areas K-6 and K-7” deposit was obtained.



Investment projects completed in 2019

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

Łęczyńska Energetyka

Investment tasks completed in 2019 included: expansion of the Water Treatment Station in Bogdanka and projects related to production, transmission and distribution of heat. In 2019 the Company's capital expenditure totalled PLN 6,273,000.

RG Bogdanka

In 2019 CAPEX amounted to PLN 2,987,000, allocated primarily for the purchase of a plough for floor dinting.

EkoTrans Bogdanka, MR Bogdanka

In 2019 incurred capital expenditure in the total amount of PLN 1,187,000. These expenses were related to material investments.

Selected items of capital expenditure in the LW Bogdanka Group

[PLN '000]	PTE 2019	PTE 2019 implementation	PTE 2019 implementation [%]	PTE 2020
New workings and upgrade of existing ones	328,434	295,412	89.9%	293,582
Maintenance of machinery	93,380	57,001	61.0%	126,775
Obtaining new licences	6,850	2,871	41.9%	350
Ostrów Field	8,191	864	10.5%	2,950
Longwalls	-	5	-	166,750
Other development investments	44,128	36,559	82.8%	37,909
ICT	6,743	3,081	45.7%	6,705
Administration	20	81	405.0%	30
Transport	2,186	695	31.8%	95
Other	7,157	3,394	47.4%	5,476
Total CAPEX in LW Bogdanka S.A.	497,089	399,963	80.5%	640,622
Łęczyńska Energetyka sp. z o.o.	13,000	6,273	48.3%	10,800
Other subsidiaries	1,456	4,174	286.7%	2,739
Total CAPEX at the LW Bogdanka Group	511,545	410,410	80.2%	654,161

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 far as preparatory works are concerned, the Company in 2019 decreased the length of workings by almost 6 km (with an estimated value of PLN 56.2 million).

Capital expenditure for excavations in 2019.

Excavations and works - total	Depreciation method	Length [m]	Value of the coal from the excavations [PLN '000]	Total value of capital expenditure [PLN '000]	Value of capital expenditure [PLN '000]
Longwall excavations:	natural	20,861.3			
Basic excavations	linear	4,208.5	81,848	377,247	295 399*
Reconstructions	linear / natural	2,730.1			

*the total does not include the compound costs of borrowed financing of PLN 13,222,000

The total length of the gallery workings that were built in the period of 12 months of 2019 was equal to 26,383.8 m. The total expenditure on reconstruction of the corridor workings in that period amounted to PLN 69,054,000. The total expenditure incurred on the new workings and on the modernization of the existing ones amounts to PLN 226,358,000.

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 1,314 m.



Planned investment tasks in 2020

OPERATIONAL INVESTMENTS LW BOGDANKA S.A.



New workings and upgrade of existing ones

Plans assume the construction of new excavations, mainly longwall galleries, main galleries, cross-headings and the remaining technological and access excavations to enable mining operations in seams 382, 385/2, 389, and 391 in the Bogdanka, Stefanów, Nadrybie and Ostrów Fields. Reconstructions of mining excavations will also be conducted.

New licences

The Company has planned expenditure for removal of carbon piezometers.

Longwalls

Purchase of a new ploughing complex.

DEVELOPMENT INVESTMENTS IN LW BOGDANKA S.A.



Ostrów Field

The Company has planned to continue the pursuance of design works and purchase of necessary land.

Maintenance of machinery

Purchase and assembly of new machines and equipment subject to assembly – LW Bogdanka S.A. planned for 2020 the purchase of 1200 and 1000 conveyors, scraper conveyor, manoeuvre tractor, suspended diesel and electric locomotive, JOY cutting machine, air barrages, OPW feeder, Pegaz device, screens, roadheading machine, devices for floor dinting, device for disassembly of lining arches and the electromagnetic block.

Purchases of finished goods (machines and equipment) – planned purchases include: ready-made transportation devices (including HUPA, transportation carriers, mobile fuel station), hydraulic pumps and aggregates, electric devices (including motors, electric equipment, flameproof bay of substation), and other ready-made devices.

Upgrades of machines and equipment – plans cover the upgrades of coal cutting machines, hoists, suspended locomotives and the roadheading machine.

Upgrades and repairs of machines and equipment and longwall systems – plans cover the repairs of wagons, wall conveyors and longwall coal-cutting machines.

Other development investments

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

MCCP replacement projects – the project includes modernisation of steel structures and MCCP facades, replacement of jiggling machines and adjustment of bridge.

Construction of facilities on the surface of the Nadrybie, Bogdanka and Stefanów Fields – main portion of expenditure is to be incurred for the upgrade of the central air conditioning system in Stefanów.

Environment protection – there are plans to build a pumping station at the RE Żelazny Ditch along with discharge of underground water.

ICT

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

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

Łęczyńska Energetyka – planned expenditure for investments in 2020 is to be used for expansion of the Water Treatment Plant in Bogdanka, assembly of an air heating installation in shaft 1.2, and projects related to production, transmission and distribution of heat as well as the purchase of material goods.

Other subsidiaries of LW Bogdanka S.A.: EkoTrans Bogdanka, RG Bogdanka and MR Bogdanka – plan to incur investment expenditure in the amount of PLN 2,739,000 for the purchase of finished goods.



Licences

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

- In the time horizon of the Strategy until 2030, the key areas for the Company include Puchaczów V, Stręczyn (K-3) and Ludwin (Ostrów).
- The Company obtained a mining licence for the Ludwin area in 2017. This allowed the exploitable resources of the Company to be doubled.
- The Company obtained a mining licence for the Cyców area in 2019. This allowed the exploitable resources to be increased by 66 million tonnes.
- assuming annual coal production at the level of about 9.0 million tonnes, the resources of the areas considered to be of key importance to the 2030 Strategy alone will ensure about 50 years of continuous exploitation.



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

Deposit	Licence No.	Granted on	Expiry date
Bogdanka	5/2009	6 April 2009	31 December 2031
K-3	3/2014	17 June 2014	17 July 2046
Ostrów	6/2017	17 November 2017	31 December 2065
K-6, K-7	10/2019	20 December 2019	31 December 2046

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



Agreements concluded

Trade agreements

As in previous years, LW Bogdanka S.A. concluded new commercial agreements and, with respect to long-term agreements already in place, negotiated prices and volumes of deliveries for the following years. The above activities resulted in nearly 100% (as at this report date) of the volume designated for sale in 2020 having been covered with agreements. All significant agreements, material from the business perspective, as well as any changes therein have been notified by the Company in current reports. In 2019, the Company signed a significant annex to change terms of the agreement with:

- Enea Elektrownia Połaniec S.A., as announced in Current Reports No. 7/2019 of 30 April 2019 and No. 32/2019 of 31 December 2019.
- Zakłady Azotowe Puławy S.A., as announced in Current Report No. 26/2019 of 20 November 2019.
- Energa Elektrownie Ostrołęka S.A., as announced in Current Report No. 27/2019 of 22 November 2019.
- Enea Wytwarzanie sp. z o.o., as announced in Current Report No. 31/2019 of 12 December 2019.

Transactions with related entities

In 2019 the Company and its subsidiaries concluded no transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis. The following table presents main agreements in effect in 2019 entered into between LW Bogdanka S.A. and its subsidiaries.

Agreements between LW Bogdanka S.A. and MR Bogdanka sp. z o.o.

- supply of energy to the workshop-storage building
- repairs of machines and equipment, and their subassemblies
- delivery of elements of machines, equipment and steel structures
- provision of repair and construction services
- repairs of transport units
- lease, rental and lending for use
- weighing service
- performance of works on Saturdays, Sundays and holidays
- rental of mine bath
- making and delivery of SV-36 and SV-32 friction props
- making a casing for a head of storage reservoir 5fb and transferring ownership title to it
- performance of steel reinforcement structure for shaft 1.2 lining

Agreements between LW Bogdanka S.A. and Łęczyńska Energetyka sp. z o.o.

- heat energy supplies
- water supplies and disposal of sewage, maintenance services of central heating, usable warm water and technological heat system devices
- sale of thermal coal and electrical power
- lease, rental and lending for use
- heating of inlet air on mine's shaft (service and maintenance supervision)
- rental of premises from Łęczyńska Energetyka for PSG and POS departments
- weighing service
- cold water supplies and waste water disposal from buildings in Zawadów
- service and maintenance of wastewater pump station, sewage disposal installation and network
- investor supervision

Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.

- performance of mining works and provision of services in the LW Bogdanka S.A. mine on business days
- providing explosion works
- lease, rental and lending for use
- auxiliary works, haulage services
- provision of higher-rank mining supervision services in the mining facility

Agreements between LW Bogdanka S.A. and EKOTRANS Bogdanka sp. z o.o.

- disposal of non-dangerous waste (waste rock)
- reclamation of land owned by LW Bogdanka located in Nadrybie Wieś
- rental of office space in a multi-functional building

In 2019, LW Bogdanka S.A. was bound by a power purchase agreement with Enea S.A. For more information about agreements with the Enea Group and companies controlled by the State Treasury, see Note 29 of the Financial Statements of LW Bogdanka S.A. for 2019.





Information on financial instruments, bonds

Information on derivative financial instruments

As at 31 December 2019, the Group did not hold any open financial instruments.

Bonds

As at 31 December 2019 the Group:

- did not have active agreement regarding bond issue
- did not have any issued and unredeemed bonds.

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

As at the date of this Report, the Group sees no threat as to the possibility of acquiring additional debt financing, but points out to the risk that the costs of its acquisition and servicing may be higher than those currently incurred.

Lease and rental agreements in 2019.

In 2019 total revenue of LW Bogdanka S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 2,729,000 net.

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

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



Agreements concluded

Agreements concerning loans and borrowings

Information on loans incurred and granted

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

Information on sureties and guarantees provided and received

In 2019, the Company did not grant (or receive) any sureties.

Guarantees granted by LW Bogdanka S.A.

In 2019, LW Bogdanka S.A. did not provide any guarantees.

In 2019 LW Bogdanka S.A. had one active loan agreement (amended by annex No. 1 concluded on 30 November 2018 and by annex No. 2 concluded on 16 October 2019). The agreement expired on 29 November 2019.

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

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. The loan will be repaid in instalments until 31 July 2024. Except for the above loan, between 1 January and 31 December 2019 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In 2019 the 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.





Coal prices on the international market

CIF ARA coal prices

- USD 56.9/tonne - the average coal price (CIF ARA) in Q4 2019, i.e. -37.9% (compared to USD 91.7/tonne in Q4 2018)
- comparing to the average coal price (CIF ARA) in Q3 2019, (USD 57.5/tonne), it's a decrease by 1.0%
- average price in 2019 was USD 60.8/tonne, down by 33.7% y/y

Inventories in ARA ports

- 6.1-6.5 million tonnes of coal inventories at the end of December 2019 in ARA ports – as at the end of September 2019 the level was 7.2 million tonnes.

Prices in the world's main ports

- The average coal price FOB Baltic Ports in Q4 2019 amounted to USD 53.1/tonne, i.e. -38.7% (USD 86.6/tonne) compared to Q4 2018
- comparing to the average price in Q3 2019, (USD 52.8/tonne), it's an increase by 0.6%
- average price in 2019 was USD 57.0/tonne, i.e. down by 34.2% y/y (USD 86.6/tonne)

China

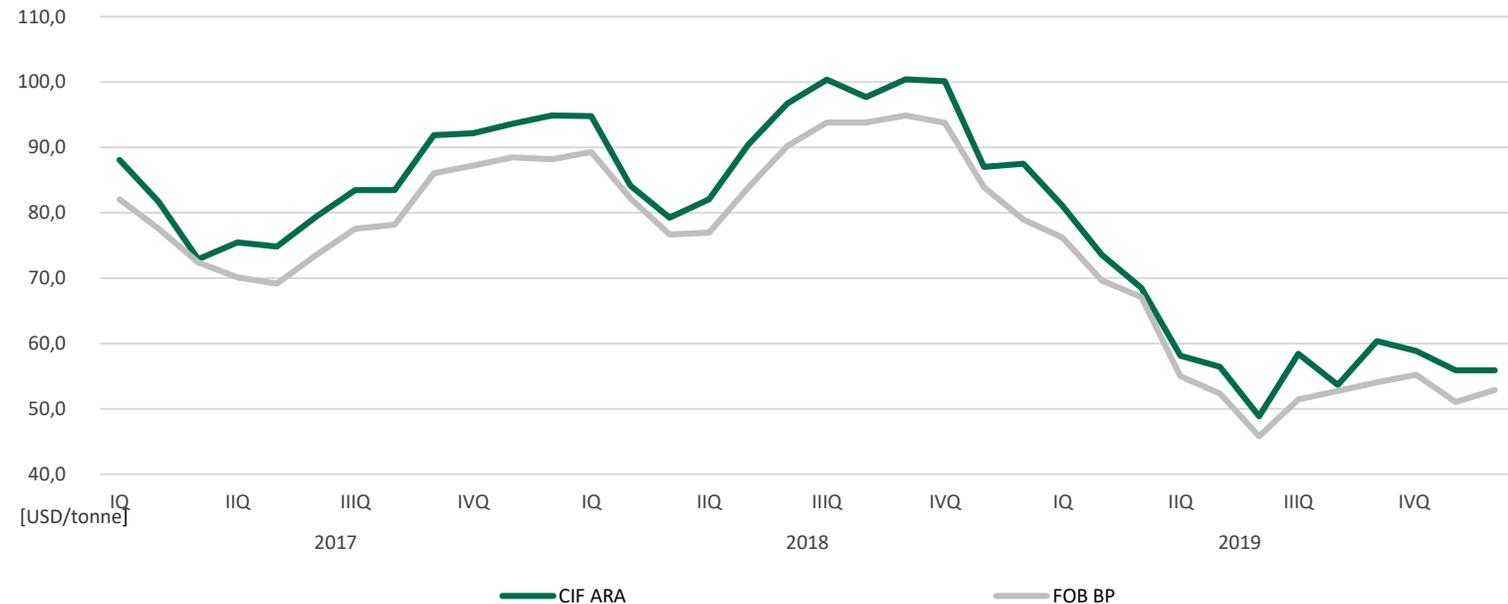
- approx. 3.8 billion tonnes of coal were produced in 2019, +5.6% compared to 2018 (3.6 billion tonnes)
- imports in 2019 were 299.7 million tonnes and were higher by approx. 6.7% compared to 2018 (281.0 million tonnes)

USA

- production in 2019 – 626.1 million tonnes, -8.5% compared to 2018 (684.0 million tonnes)
- consumption in 2019 amounted to 541.0 million tonnes. -13.4% comparing to 2018 (625.0 million tonnes)
- exports in 2019 – 85.5 million tonnes of hard coal, -18.6% y/y

Russia

- production in 2019 – 440.7 million tonnes, i.e. +0.2% y/y
- exports in 2019 – 192 million tonnes, similarly as in 2018





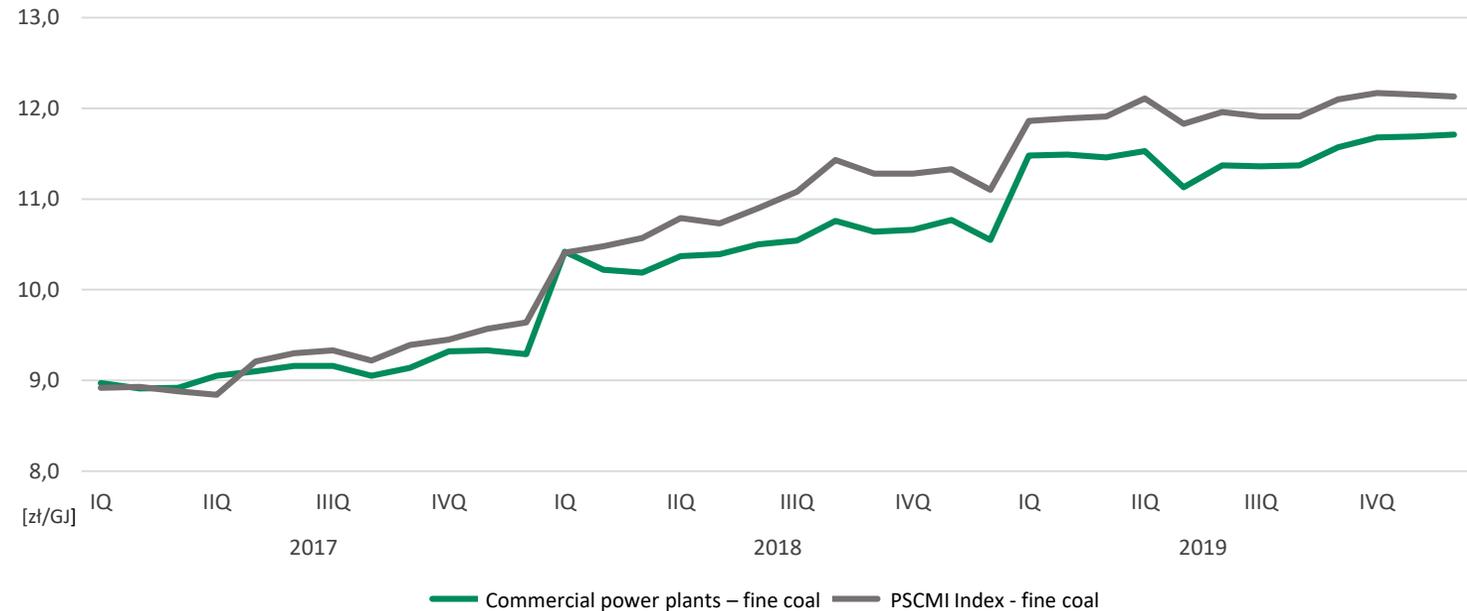
Fine thermal coal prices in the domestic market

Fine thermal coal prices

- in Q4 2019, the average annual price of fine thermal coal for commercial power plants was PLN 11.69 per GJ, the change dynamics was ca. 9.7% y/y
- in 2019 (PLN 11.49 per GJ – up by 9.4% compared to 2018. (PLN 10.50 per GJ)
- average heating value of fine coal for commercial power plants was about 21.2 GJ

Prices based on the PSCMI index

- in Q4 2019 the average price based on the PSCMI index was approx. PLN 12.15 per GJ, which compared to average price in Q4 2018 (PLN 11.24 per GJ) represents an increase by approx. 8.1%
- in 2019 the price stood at the level of PLN 11.99 per GJ, PLN 10.95 per GJ in 2018, increase by 9.5%





Production, sales and stocks of thermal coal at the end of 2019 in the domestic market

Production of thermal coal in Poland

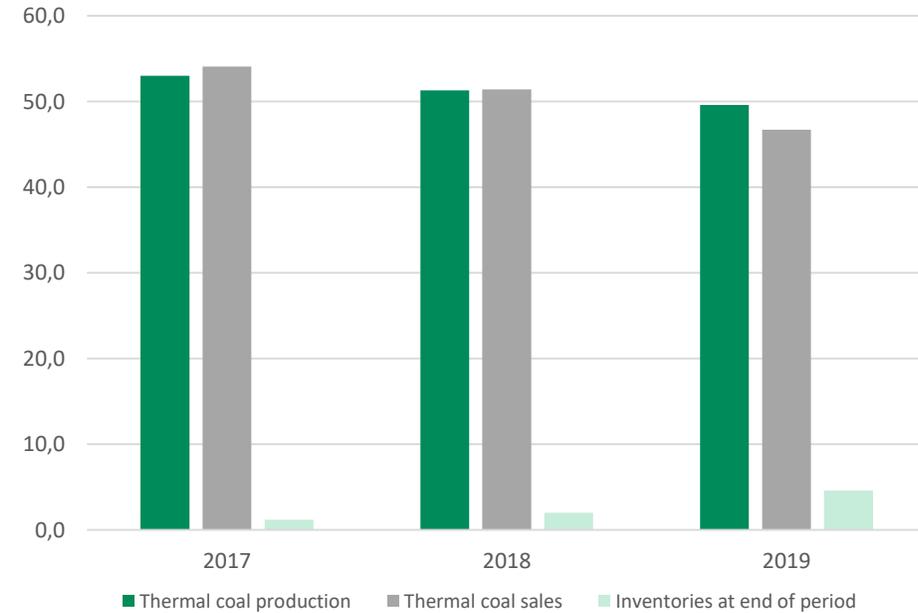
- in 2019, the production of thermal coal amounted to about 49.6 million tonnes, which represents a decline of 3.3% y/y

Sales of thermal coal market in Poland

- sales in 2019 amounted to about 46.7 million tonnes, including about 31.2 million tonnes of thermal fine coal sold to commercial power plants
- sales of thermal coal decreased by about 7.3% in comparison to 2018

Inventories of coal in Poland

- the level of thermal coal inventories at the end of 2019 totalled 4.6 million tonnes (at the end of 2018 – 2.0 million tonnes)





Production, sales and stocks of thermal coal at the end of 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 31.2 million tonnes of thermal fine coal. The most important customers from the commercial power industry are as follows:

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

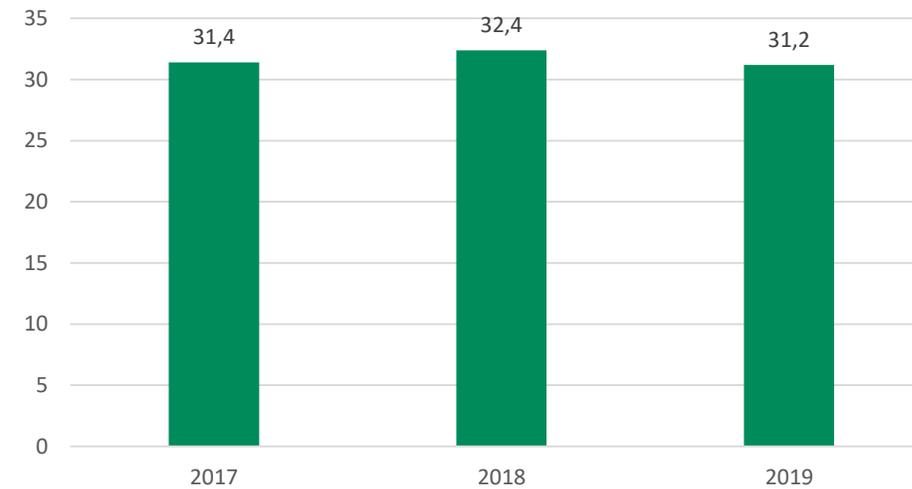
Sales of thermal coal market in Poland

In 2019, about 46.7 million tonnes of thermal coal were sold in Poland. 45.6 million tonnes of thermal coal were delivered to the domestic market, including 39.4 million tonnes of thermal fine coal.

Export of coal

About 3.7 million tonnes of coal were exported, including approx. 1.1 million tonnes of thermal coal.

Sales of thermal coal to commercial power plants





Electricity generation in Poland

Electricity generation - total

- In 2019, the production of electricity totalled about 158,767 GWh, which represents a decrease of 6.447 GWh (-.9%) versus 2018.

Power generation from coal

- Coal was the main fuel used to produce electricity. In 2019 it was used to produce 119,692 GWh, which was a decrease by 11.755 GWh (-8.9%) compared to 2018.
- In 2019 coal accounted for 75.4% of total electricity production in Poland, but its share in the fuel mix went down by 4.2% in comparison with 2018.

Power generation from hard coal

- Hard coal was used to produce 78,190 GWh of electricity (almost 5.1% less than in 2018)

Power generation from lignite

- Lignite was used to produce 41,502 GWh of electricity (15.4% less compared to 2018).

Power generation by wind farms

- Wind farms produced 13,903 GWh of electricity, which represents an increase of almost 19.1% in comparison with 2018. Wind made up about 8.8% of electricity production.

Power generation by gas-fired power stations

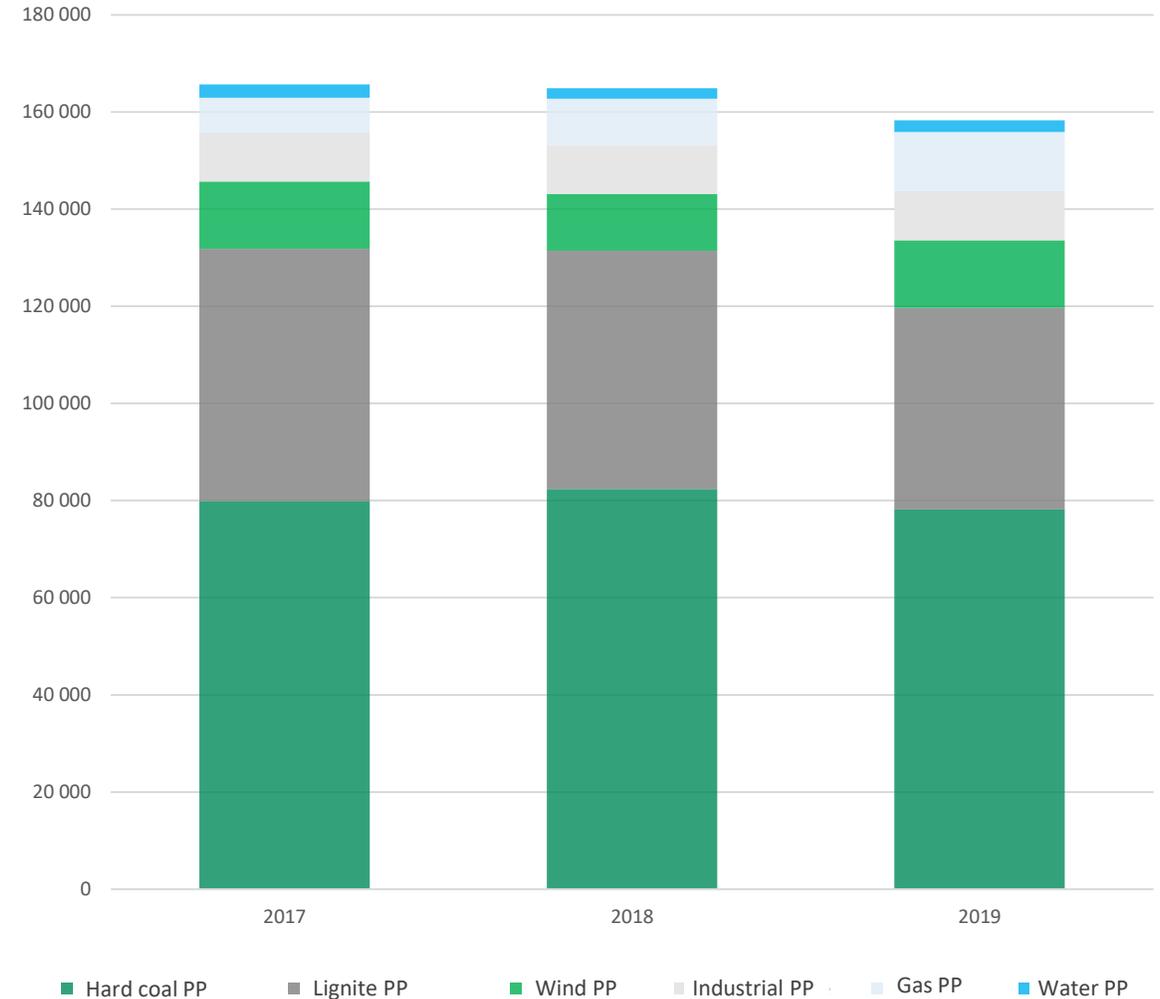
- Gas power plants produced 12,099 GWh of electricity, which was an increase of 26.2% compared to 2018. Production of energy in gas power plants achieved the highest growth dynamics y/y.

Electricity consumption on the domestic market

- In 2019, the production of electricity totalled about 169,391 GWh, which represents a decrease of 1,541 GWh (-0.9%) versus 2018.

Foreign sales balance

- The balance of foreign exchange of electric power in 2019 was 10,624 GWh, in 2018 the figure was 5,718 GWh (+85.8%).





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

Risk management

Risk management process:

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

Systems in place:

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

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

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

Risk management process

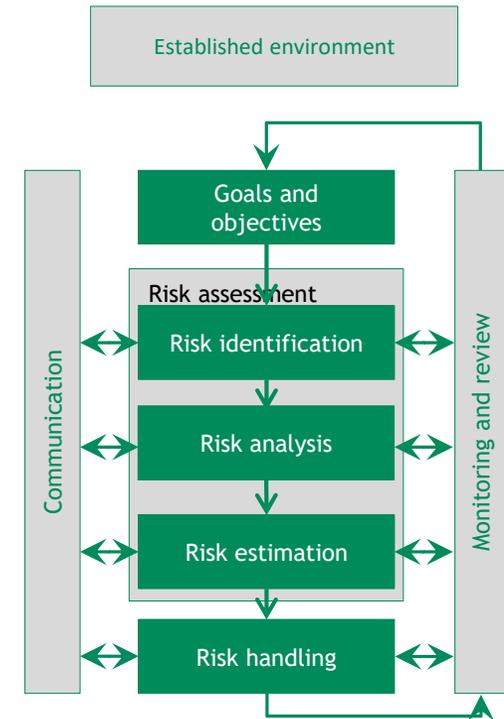
LW Bogdanka S.A., as part of the integration process within the Enea Group and in line with the relevant Group regulations, i.e. the applicable "Secondary Documents", has implemented since January 2018 the ERM system to be applied in the Group companies. As at 31 December 2019 a Parent Risk Register was updated in accordance with the Enea Group's Methodology.

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

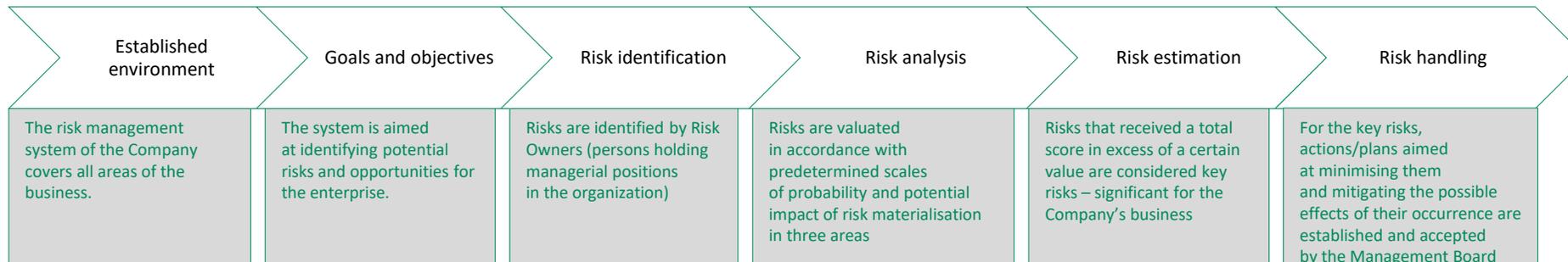
In subsequent periods, the system will be further adapted to the needs of the Group with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

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

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



Risk management process





Main risks to the Group by category

Business environment and market

- Risk associated with the social and economic situation in Poland and the world
- Risk associated with the economic policy of the State in relation to the hard coal mining sector
- Risk associated with the levels of prices for raw materials for power production in Poland and the world
- Risk associated with the 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
- Epidemic risks
- Risk of temporary limitation of supplies to customers

Operational

- Risk associated with the launch of extraction of new deposits at LW Bogdanka S.A.
- Technical and technological risk
- Risk associated with high costs of technologies applied by LW BOGDANKA S.A.
- Risk of IT systems malfunctioning
- Risk of difficulties in supplies to LW Bogdanka S.A.' customers 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

Financial

- Insurance risk

Environmental protection

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

Legal

- Risk of change to tax laws
- Risk of real property tax on mining excavations of LW Bogdanka S.A.
- Risk of a change in the law and its interpretation and application
- Risk of violating the stock exchange disclosure requirements



Risks associated with the social and economic situation of the Group

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

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

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

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



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

Plans of the Government concerning enterprises operating in the hard coal mining and power engineering sector have a significant influence on the market position of LW Bogdanka S.A. An updated "Draft of Poland's energy policy until 2040" was adopted on 8 November 2019. 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. 56%-60% in 2030. These assumptions give a positive sales perspective,

which thus means retaining the production level by LW Bogdanka S.A.



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. Since the beginning of 2019, a period of price increases has been followed by price drops, and this adverse trend continues from the beginning of 2020.

This primarily results from supply and demand situation of the largest customers of imported coal in Europe, which is a consequence of, among other things, high temperatures recorded in the winter season.

In 2019, in the domestic market, the prices of thermal coal continued the increases which started in 2017. However, due to these exceptionally high temperatures in the winter period, coal consumption by commercial power plants and heat power plants was reduced, which translated into an increase in the level of coal mounds in mines as well as power plants and heat power plants.



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

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

These include:

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

The consequences may include:

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

Countermeasures:

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

The following factors are also of importance:

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



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

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

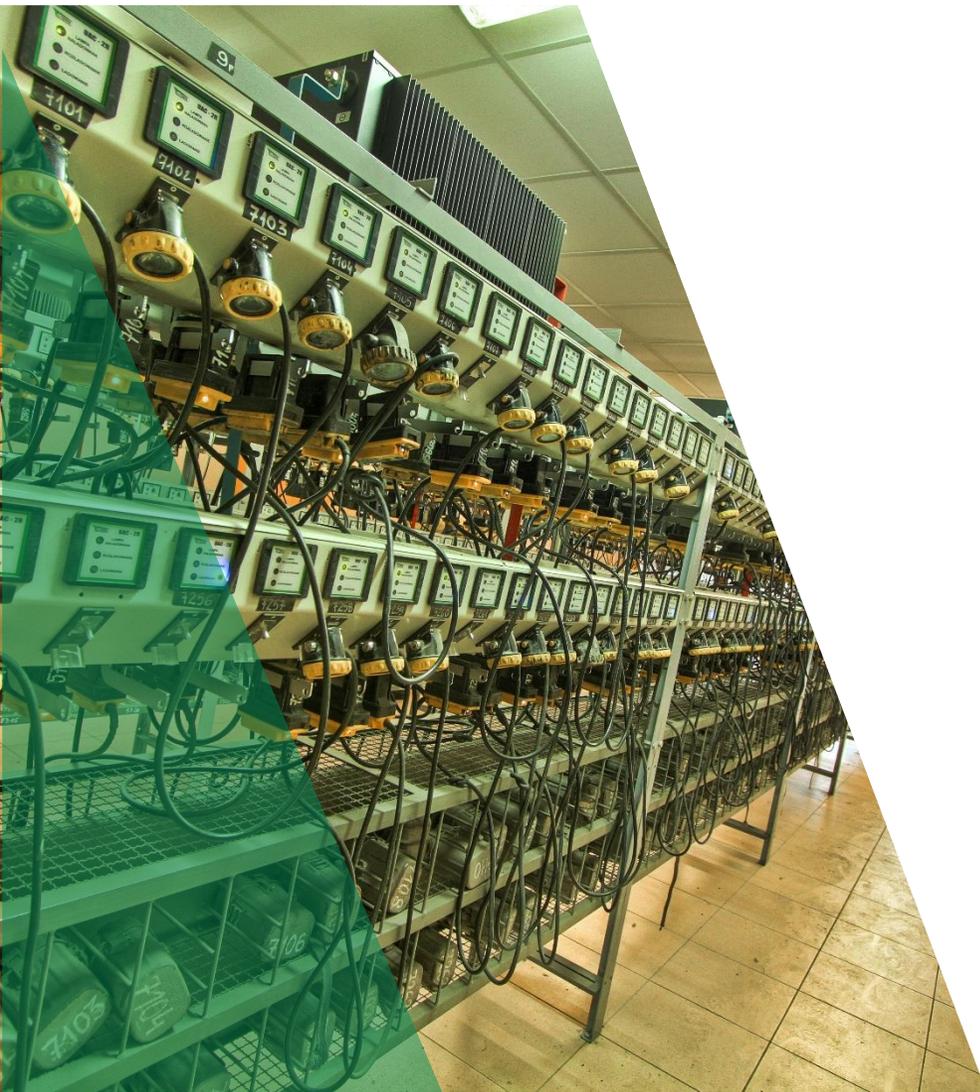
In the Polish energy sector, a great majority of electricity is generated on the basis of coal (hard coal and lignite). The production of electrical or heat energy from coal is connected with significant CO² emissions. 2019 saw a significant

increase in CO² prices, which translates directly into an increase in costs of coal burning. These limitations or introduction of stringent standards or emission limits of CO², SO_x, NO_x and other chemical compounds as well as a continuous growth of prices of CO² emission rights 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 LW Bogdanka S.A., and in consequence may have a negative impact on the Group's financial results.

Countermeasures:

- active involvement in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers;
- monitoring any amendments to the Energy Law or other acts, and assessing their potential impact on the Group's operations.





Risks associated with the social and economic situation of the Group

Epidemic risks

At the end of 2019 news was spread, with its origin in China, about a novel coronavirus SARS-Cov-2 causing the COVID-19 disease ("coronavirus"). As at 31 December 2019 the virus was present on a limited territory, but during the first months of 2020 the situation developed rapidly and the coronavirus spread globally (arriving also to Poland at the beginning of March this year).

At the present moment the Group's operations have not been materially affected by threats caused by the coronavirus; the Parent's Management Board however carefully monitors the level of this threat simultaneously taking actions to minimise the virus threat and adverse effects resulting therefrom. At the present stage it is very difficult to predict how the situation related to the described threat will develop and what adverse consequences (if any) it will bring for the Company's operating activities and financial standing.

Actions taken by LW Bogdanka S.A. in order to mitigate the described risk as much as possible, include temporary limiting business trips and meetings, increasing availability of cleaning agents, disinfection agents, and other equipment for the employees' personal protection, introducing relevant work procedures (e.g. shift work), change in timetable of entering and exiting the mine by the staff, information campaign addressed to all employees as well as careful monitoring of directions of its employees' travels (including their families/ other members of their households). Key actions taken by the Group also include

adjusting its procedures to the requirements of the Act on specific solutions related to prevention, counteraction and fighting COVID-19 adopted by the lower chamber of the Parliament (the Sejm) on 2 March 2020....".

on specific solutions related to prevention, counteraction and fighting COVID-19 adopted by the lower chamber of the Parliament (the Sejm) on 2 March 2020....".

In relation to the existing threats, the Management Board is working on alternative scenarios of the mine functioning for the event of expanding the pandemic or any employees at the Company or its subsidiaries being found positive with coronavirus. The Group's operating activity may be materially affected with changes, which will then be reflected in its financial results. The situation also applies to employees of external entities providing the Company with mining services, as well as its suppliers and customers. The difficulties in the area of human resources impacting the Group and its business partners may materially affect its operating activity and the generated financial results.

The assessment of the impact of the current circumstances on the Parent and the whole Group as well as its market environment is being carried out on an ongoing basis; as a result of this analysis the Group is prepared to flexibly respond and adjust production capacities to the Parent's feasibility and/or the market needs. The assumed level of production and sales, and in consequence the forecasted financial results of the whole Group depend on which scenarios will be pursued. The same restrictions refer to the assumed level of the performance of CAPEX, where the expenditure for preparatory works makes the largest portion.

Risk of temporary limitation of supplies to customers

Warm and windy winter brought a lower production of electric power by commercial power plants which receive more than 90% of coal produced by LWB, therefore there is a risk of a periodic reduction of collection volumes by key customers. Long-term agreements, which regulate majority of LWB sales provide for the possibility to increase or decrease collection volumes in the framework set out in the agreement. The purpose is to introduce more flexibility to sales schedules, and further - production schedules in order to keep optimum conditions and costs of the mine work. The Company mitigates the above risk by introducing flexible work mode, which enables it quick and flexible commissioning work on weekends to companies providing mining services to the mine. Outsourced services provided in respect to work on weekend constitute variable cost incurred accordingly to customer demand for additional coal volumes.





Risks directly associated with the Group's operations

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

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

Restriction of the mining capacity may 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. and the Group.

As a result of measures taken so far by LW Bogdanka S.A., in November 2017 a mining licence was obtained for the "Ostrów" deposit (Ludwin Mining Area) and in December 2019 - a mining licence was obtained for the "K-6, K-7" deposit (Ludwin Mining 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.



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. 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 the LW Bogdanka Group 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. At the end of 2019 limited traffic was restarted on one rail towards Warsaw. Completion of works at the whole Lublin-Dęblin section and further to Warsaw, as per the last announcement of PKP PLK S.A. dated 7 November 2019, is scheduled for the end of 2022.





Risks directly associated with the Group's operations

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the LW Bogdanka Group payable by its customers and the surplus of Group's receivables in comparison to liabilities. Trade and other current receivables of the Group accounted for 5.6% of the carrying amount and 11.1% of its revenue for the last 12 months of 2019. The share of trade receivables in trade and other current receivables accounted for 86.6%.

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 LW Bogdanka Group (there are four trade union organisations at LW Bogdanka S.A. associating 64.3% 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.





Financial risks and risks associated with environmental protection

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, resulting in particular from the risks accumulated in the mine's underground part. Given the materiality of risks to which the Group is exposed, these risks are - where particularly justified - transferred outside the Company, on the basis of insurance agreements signed. The Group is protected with respect to underground property, surface property, and third party liability for damage caused in connection with business activity as well as with respect to other, less material risks. At the end of 2019 insurance agreements covering the most material risks ended, therefore in December insurance coverage was renewed for the next period. The currently binding scope of protection is similar to the previous one, however the quality of insurance coverage with respect to risks on the surface was significantly improved by extending the scope of insurance protection to cover also the risk of loss of profit (Business Interruption). Furthermore, the Group undertakes measures with a view to mitigating the exposure to risk related with the protection of personal data.



Risk associated with reclamation and mining damage

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

Countermeasures: repair works, protecting buildings

against the results of mining damage, reimbursing the costs incurred by investors in connection with adjusting new buildings under construction on the mining land to the current conditions, gradually performing drainage hydrotechnical works as well as land reclamation within the impacted areas.



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

The operations of LW Bogdanka S.A. have a significant impact on the environment.

Therefore, the Company must hold specific permits and observe standards of using the environment detailed in applicable laws (including BAT requirements - Best Available Techniques).

In particular with respect to the following:

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

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



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

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

On the basis of a building permit, the Company has commenced works connected with increasing the height of the existing yard (to 250 MASL),

and undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment will mean the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste.

Countermeasures: The Group performs works connected with increasing the height of the existing mining waste utilisation facility and expanding the area to the east. Further, it continues works on acquiring new land to execute the next phases of extension of the yard and has commenced design works relating to development of the yard.

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



Investment risks associated with protected areas

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

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

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





Risks associated with proceedings and legal environment

Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken. Frequent amendments to tax regulations and rigorous and stringent provisions do not offer an incentive for decision-making. Legislative changes or sometimes changes only to interpretations may generate all kinds of risks. Amounts disclosed in the financial statements can therefore be changed after their amount has been finally determined by the tax 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. Nevertheless, in Q3 2019, in order to secure against any possible negative consequences

for the Group in the form of interest on past due real property tax, the Group decided to include in its calculations, for the purpose of that tax, also the value of underground mining excavations and lining. In 2019 fiscal proceedings were pending against the Parent in order to determine the amount of real property tax due for the period between 2004 and 2015, instigated by the Heads of Puchaczów, Cyców and Ludwin Communes.

Countermeasures:

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

For more information refer to the Consolidated Financial Statements of the LW Bogdanka Group for 2019, Note 19.



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.





Work conditions and technical risks

Working conditions

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

Natural risks

The following natural threats occur in the mine:

- Methane hazard



- Water hazard



- Coal dust explosion hazard



- Fire hazard



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

In June 2019 endogenous fire occurred in the area of the closed wall 3/II/385. Therefore G-1 division (wall 4/II/385) is currently included in fire divisions of increased frequency of collecting air samples to laboratory analysis.

Technical risks

In 2019, on average 65 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present.

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

Particularly dangerous machinery includes but is not limited to belt and scraper conveyors, underground locomotives,

- suspended diesel rail vehicles,
- hydraulic-powered roof supports.

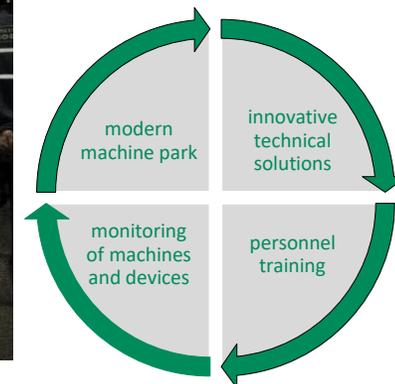
technical risks and their impact on employees are reduced by:

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

on average 65 employees are exposed to mechanical risk each day



we mitigate technical risks by:





Harmful and nuisance factors

Harmful and nuisance factors

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

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

The internal procedure covers the following measurements:

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

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

Work accidents

In 2019, at LW Bogdanka S.A. there were 93 accidents at work, which caused temporary inability to work. In 2019 the frequency rate (per employees) dropped by 10.3%, and the frequency rate (per workdays) dropped by 12.5%.

The number of accidents and basic accident rates are presented in the table.



Number of accidents and accident rates at the Company in 2017-2019

	2017	2018	2019
Number of accidents – total	99	102	93
including: fatal	1	-	-
including: causing serious injury	-	1	-
frequency rate (per 1,000 employees)	22.3	21.4	19.2
frequency rate (per 100,000 workdays)	11.6	9.61	8.4

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

	Underground				Chemical agents	Other
	Dustiness	Noise	Vibrations	Microclimate		
2017	1,484	1,021	6	381	-	-
2018	894	520	26	338	-	-
2019	449	481	6	271	-	-



Workforce changes

Workforce at the Group

2019 brought a 5.0% increase in employment in the Group. The highest increase (in %) in FTJs was recorded in RG Bogdanka sp. z o.o. Underground personnel constituted the main group employed in the Group, i.e. 72.2%.

Employment in LW Bogdanka S.A.

In 2019 the personnel employed at the Parent accounted for 87.0% of total employment in the Group. Blue-collar workers accounted for 84.3% of all employees. In comparison with 2018 the number of underground staff went up by 106.0 workers, i.e. 3.0%.

HR policy implemented in 2019

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

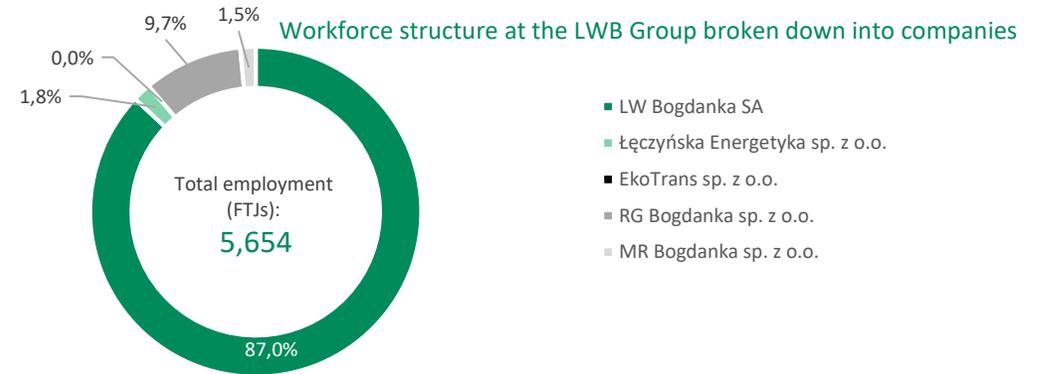
Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2019, the LW Bogdanka Group organised internal and external training.

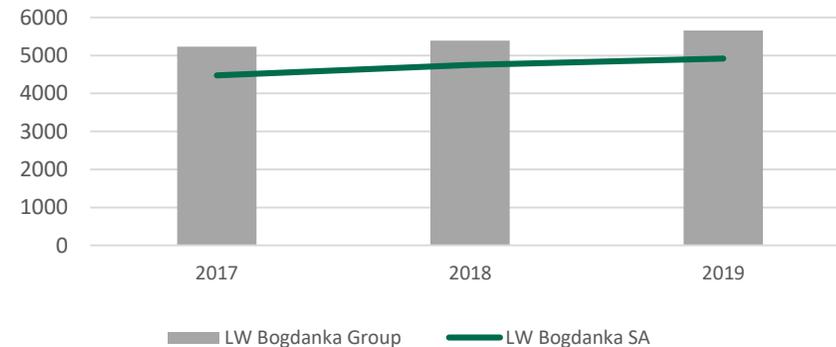
Employees took part, out of their own initiative and upon consent of their superior, in external training and conferences to expand their knowledge.

In 2019 two elite programmes were launched: "Mining Leaders Academy" – addressed to senior managers of the mine, and "Foreman Academy" – for key employees / middle-level managers included in the succession plan. The programme of the first one is carried out in the form of post-graduate "Mining Enterprise Value Management" studies organised by the AGH University of Science and Technology in Krakow in cooperation with Lubelski Węgiel Bogdanka S.A and third-party coaches. Each person who has been invited to this programme has a chance to participate in an exceptional project.

Its exceptional nature results from the fact that it has been developed strictly in line with the needs of our mine development and enhancing the competences of the future, which we need to be able to become more and more innovative company. The subjects of the programme are aligned with strategic directions of our Company therefore each participant will be able to directly participate in building the innovative mine. The second one is a development project, dedicated to shift foremen, with the main purpose to develop their team management skills. We want shift foremen, once they complete the training, to become leaders focused not only on results but also on people.



[FTJs as at 31 December]	2017	2018	2019	Structure	Change 2019/2018
	Total				
LW Bogdanka S.A.	4,470.2	4,749.3	4,916.5	87.0%	3.5%
Łęczyńska Energetyka sp. z o.o.	98.0	97.0	100.0	1.8%	3.1%
EkoTrans sp. z o.o.	1.0	1.0	1.0	-	-
RG Bogdanka sp. z o.o.	424.1	318.0	550.6	9.7%	73.1%
MR Bogdanka sp. z o.o.	239.8	220.4	85.5	1.5%	-61.2%
LW Bogdanka Group	5,233.1	5,385.7	5,653.6	100.0%	5.0%



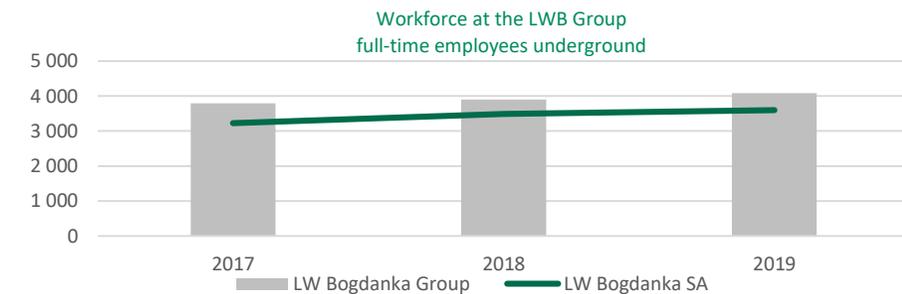
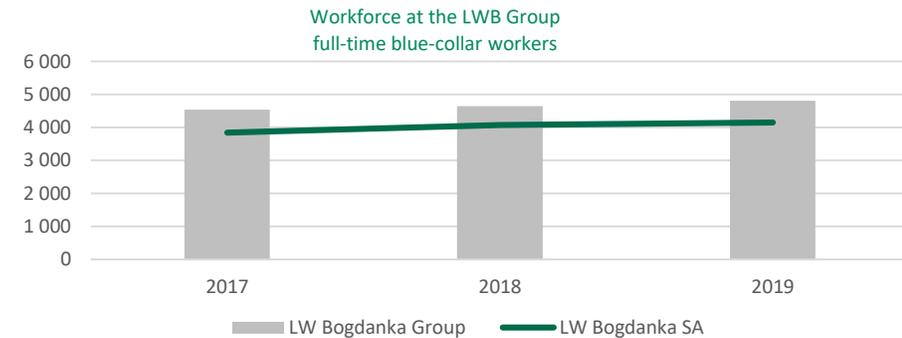
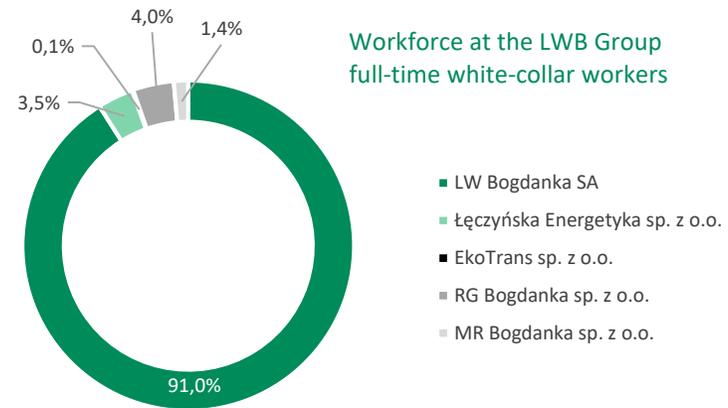


Workforce changes

[FTJs as at 31 December]	2017	2018	2019	Structure	Change 2019/2018
White-collar workers					
LW Bogdanka S.A.	633.2	675.3	769.5	91.0%	13.9%
Łęczyńska Energetyka sp. z o.o.	30	30	30	3.5%	0.0%
EkoTrans sp. z o.o.	1	1	1	0.1%	0.0%
RG Bogdanka sp. z o.o.	15.1	22	33.6	4.0%	52.7%
MR Bogdanka sp. z o.o.	14.5	13.5	11.5	1.4%	-14.8%
LW Bogdanka Group	693.8	741.8	845.6	100.0%	14.0%

[FTJs as at 31 December]	2017	2018	2019	Structure	Change 2019/2018
Blue-collar workers					
LW Bogdanka S.A.	3,837.0	4,074.0	4,147	86.2%	1.8%
Łęczyńska Energetyka sp. z o.o.	68.0	67.0	70.0	1.5%	4.5%
EkoTrans sp. z o.o.	-	-	-	-	-
RG Bogdanka sp. z o.o.	409.0	296.0	517.0	10.8%	74.7%
MR Bogdanka sp. z o.o.	225.3	206.9	74.0	1.5%	-64.2%
LW Bogdanka Group	4,539.3	4,643.9	4,808.0	100.0%	3.5%

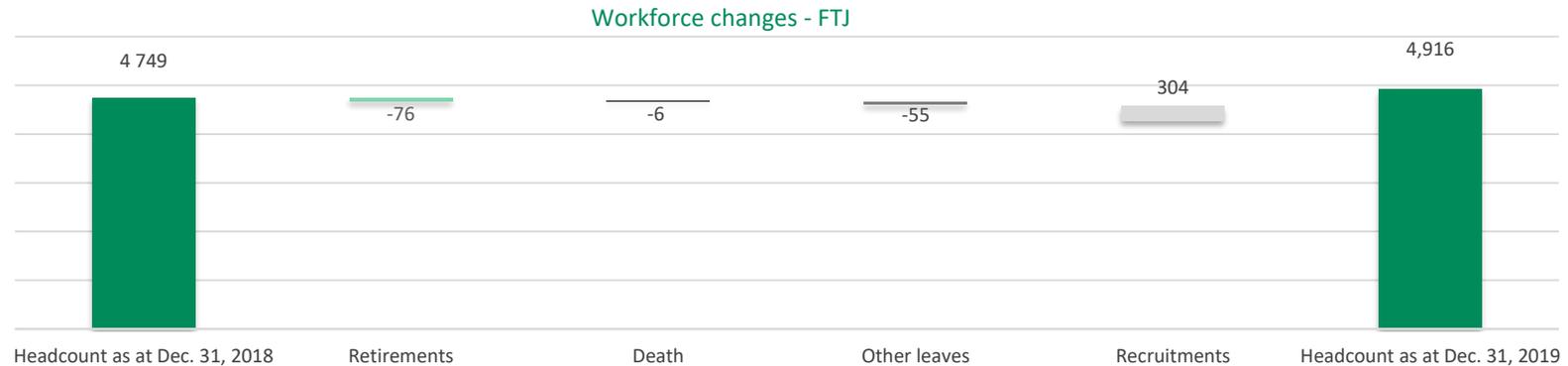
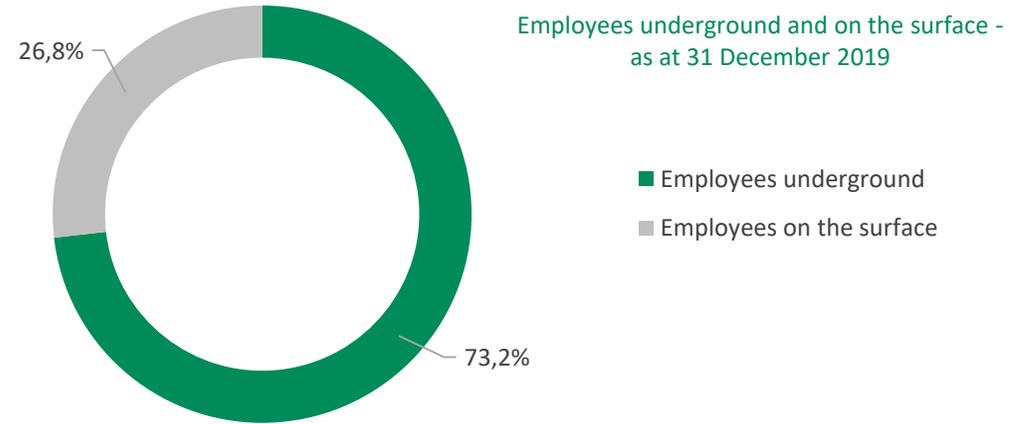
[FTJs as at 31 December]	2017	2018	2019	Structure	Change 2019/2018
Underground workers					
LW Bogdanka S.A.	3,224.0	3,493.0	3,599.0	88.1%	3.0%
Łęczyńska Energetyka sp. z o.o.	-	-	-	-	-
EkoTrans sp. z o.o.	-	-	-	-	-
RG Bogdanka sp. z o.o.	407.5	278.9	485.7	11.9%	74.1%
MR Bogdanka sp. z o.o.	158.8	131.9	-	-	-100.0%
LW Bogdanka Group	3,790.3	3,903.8	4,084.7	100.0%	4.6%





Workforce changes at LW Bogdanka S.A.

- As at the end of 2019, the Company employed 4,916,5 people, which represents a 3.5% increase compared to 4,749.3 people at the end of 2018.
- underground and surface employees make up 73.2% and 26.8% of the head count, respectively. Due to the nature of its business, the Company mainly employs men - they account for 94.5% of the head count (women - 5.6%).
- in terms of age, the dominant group of employees is composed of people between 30 and 40 years of age (48.8%).
- the largest group is made of persons with secondary education. Their share in total employment at the end of December 2019 was 58.5%.
- 1,986 employees (40.3%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications.

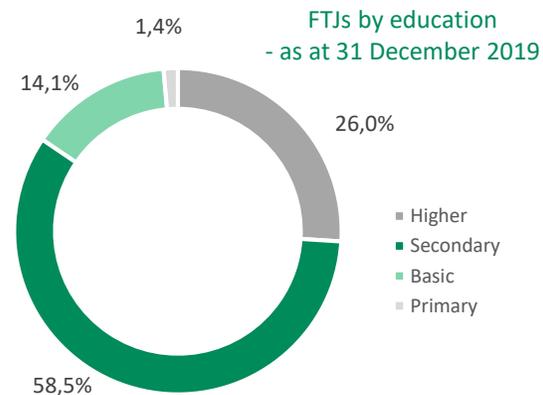
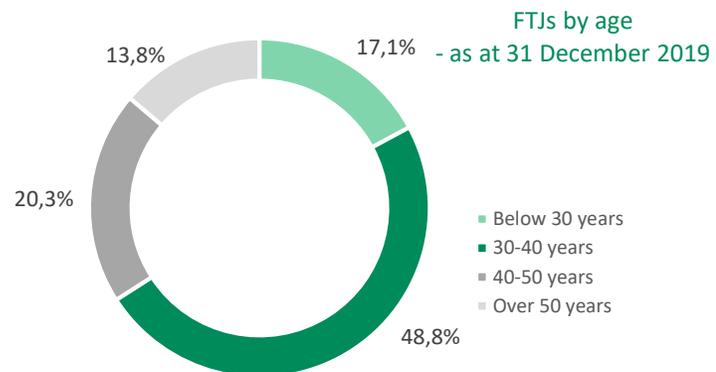
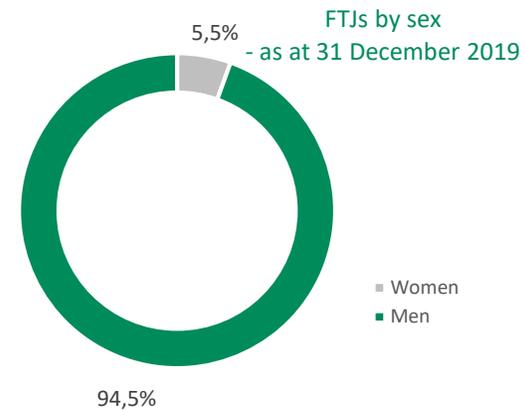
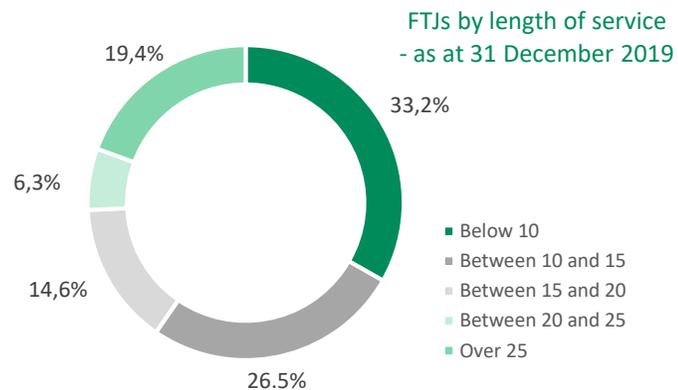




Employment structure in LW Bogdanka S.A. by FTJs



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





Average monthly remuneration

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

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

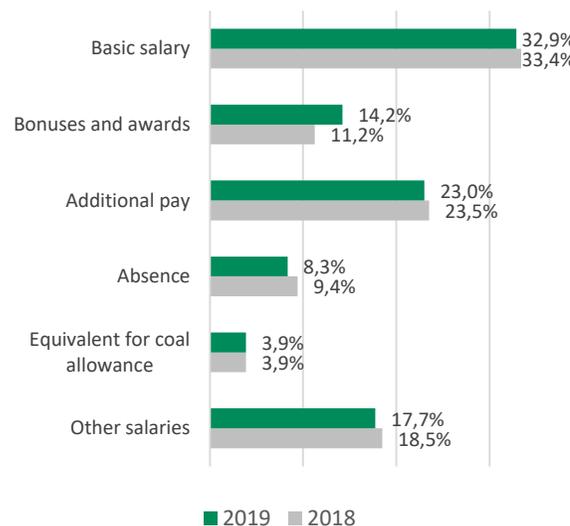
In 2019 the payroll fund was used in accordance with Additional Protocol No. 63 to the Collective Bargaining Agreement which includes an increase in base pay as from 1 March 2018 by 5%;

- agreements on the payment of the first and the second tranche of the special award for 2019 for the performance of task – extraction of commercial coal at a level close to 9.5 million tonnes in 2019
- monthly bonus settled on the basis of:
 - the degree of compliance with monthly production targets
 - sale of commercial coal
 - the average sale price achieved
 - the degree of compliance with the Company's cost budget for individual periods.

In its remuneration policy the Company pays particular attention to reflecting the employee performance in the remuneration amount. Bonuses and awards

go to those employees who show their dedication to and initiative at work.

Remuneration structure at LW Bogdanka S.A. in 2018 and 2019 at LW Bogdanka S.A.:



In 2019 the Company's Management Board made all efforts to correlate remunerations with results achieved by the Company. Therefore, in its appreciation for the Employees for achieving a record-breaking extraction result it paid a special award for 2019 in relation to the extraction of commercial coal at a level close to 9.5 million tonnes, which significantly raised the average remuneration figure at the Company. The annual award (gross) paid to the employees was nearly PLN 21.5 million. Furthermore, LW Bogdanka S.A., comparing to 2018, raised the monthly bonus for the employees, which – adding to the special award – gave an increase in the share of incentives from 11.2% to 14.2%.

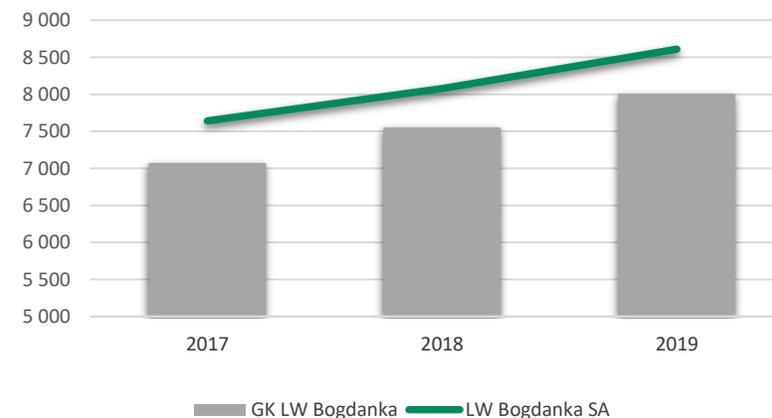
Additionally, in 2019, the Management Board of the Company, undertook broad action aiming at reducing

days of sickness absence among the LW Bogdanka S.A. staff, which effected in the reduction of the share of absence in the whole remunerations fund from 9.4% to 8.3%.

[PLN]	2017	2018	2019	Change 2019/2018
LW Bogdanka S.A.	7,641	8,077	8,608	6.6%
Łęczyńska Energetyka sp. z o.o.	4,780	4,882	5,026	2.9%
EkoTrans sp. z o.o.	8,623	6,074	6,572	8.2%
RG Bogdanka sp. z o.o.	3,365	3,520	3,745	6.4%
MR Bogdanka sp. z o.o.	4,150	3,748	4,473	19.3%
LW Bogdanka Group	7,072	7,551	8,008	6.1%

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

Average remunerations 2017-2019





Marketing operations

Goals and objectives

The objectives of the undertaken marketing and promotional activities include:

- a) building a positive image of the Company in the Lublin region, in particular in its closest geographic surroundings,
- b) strengthening the Company's reputation as an active patron of socially important projects and initiatives,
- c) building of social support for the Company's business activities.

The above goals are pursued through the following tools: sponsorship projects, PR projects, CSR activities as well as activation of projects through organisational support, promotional and advertising actions. Projects are selected, reviewed, and settled in terms of their efficiency and usefulness for the Company's goals.

Sponsorship

The sponsorship strategy of LW Bogdanka includes the following sub-areas:

- I. **Sports sponsorship** – a tool for the Company's impact on local communities, i.e. getting support from broader social circles. The Company is aware that sports clubs and sport events are key for strengthening the sense of community, and that traditions related to particular events tighten social bonds. Furthermore the projects are selected in such a manner that the sports fans are also key stakeholders of the Company (mostly the employees and local community from the area of impact). In 2019 the Company completed the total of 23 projects in the field of sports sponsorship, including:

- a) Górnik Łęczna S.A., professional club which manages tournaments of men's football team in the 2nd League. This entity has historical relationships with the mine, the town and the poviát, and the team fans are, in majority, the employees of the LW Bogdanka Group. This club also runs the Sports Academy, teaching more than 500 children from Łęczna and the region of Łęczna, and a Sports Championship School (having the status of a secondary school - a secondary school with a football profile), the first school of this kind in the Lublin province.



- b) The GKS Górnik Łęczna Association is also an entity with historical ties with the Company. It runs the women's football section whose team won the title of Champion of Poland in the 2018/2019 season. The club also owns and manages sports facilities in Łęczna, where the professional club players practice and play matches.



- c) MGKS Gwarek Łęczna, which is an amateur boxing sports club, active only for children and teenagers, representing boxers who have a good success rate in boxing tournaments on both national and international level.
- d) Local motor sports projects, popular and well received in the regional scale, i.e. young cinder-track racing team Bogdanka Motor Lublin, and 16-years-old Szymon Ładniak, one of the most talented rally drivers of the young generation.



- II. **Social and cultural sponsorship** – the Company' tool for impacting local communities in the region through support of opinion leaders as well as the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. In 2019, the Company completed 32 projects in the field of social and cultural sponsorship, cooperating with known and praised cultural institutions from the Lublin area, including: Cultures Meeting Centre, H. Ch. Andersen Theatre, Musical Theatre. Moreover, the Company got involved in the Lublin Festival of Science, a project popularising science among local communities.

Public Relations

The remainder of the promotion budget was used in 2019 for public relations and publicity activities carried out through various communication channels (internet, social media, press, radio, TV, events, and fairs). These activities focused on building social support for the Company's business activities and enabling sponsorship and social projects.

Activities related to the corporate social responsibility (CSR)

The activities undertaken in the CSR area include those which are a response to the needs of key stakeholders groups and market challenges. They are based on four pillars defined in the social responsibility strategy for 2018-2021, namely: ensuring the highest level of work safety, guaranteeing safety to the direct natural environment, stimulating development of the local community and transparent and responsible management practices.

- a) On its way to attaining the set goals the Company launches programmes and initiatives in health promotion and dissemination of OHS knowledge, protection of biodiversity in the areas under the mine's impact, addressing social problems in close cooperation with local non-government organisations, development of non-financial reporting skills or pursuance of a dialogue with the stakeholders.

Sponsoring and promotion [PLN '000]	2018	2019
Promotion	705.3	691.5
Sports sponsorship	6,524.5	6,441.5
Social/cultural sponsorship	386.1	291.4
Total	7,615.9	7,424.4



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

Information on the auditor responsible for auditing the report

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

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

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

Basis of preparation of the Annual Consolidated and Separate Financial Statements

The consolidated financial statements of the LW Bogdanka Group and separate financial statements of LW Bogdanka S.A. for the period from 1 January 2019 to 31 December 2019 were prepared on the basis of the International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission. The financial statements were prepared according to the historical cost principle except for derivative instruments measured at fair value as well as share-based payments.

Except for changes resulting from the first-time application of *IFRS 16 "Leases"* the separate and consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

Differences between financial results and projected results for 2019 published earlier

In 2019 the LW Bogdanka Group did not publish projections of the separate or consolidated financial results of the Group.

Court and out of court proceedings

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

Arrangement proceedings

In 2019, the Company was not a party to arrangement proceedings.



The remuneration of the auditor auditing the financial statements as well as for the PricewaterhouseCoopers entities for all services provided in 2019 and 2018 is as follows:[PLN '000]

	2018	2019
•audit of the annual financial statements	262	252
•review of financial statements	45	40
•other certifying services (verification of ratios)	7	13
Total	314	305



3 Financial standing



Production, sales and inventories of coal

Production, sales of commercial coal of the Company

['000 tonnes]	Q4 2018	Q4 2019	Change	Change %	2018	2019	Change	Change %
Gross coal extraction	3,581	3,770	189	5.3%	14,894	14,741	-153	-1.0%
Production of commercial coal	2,187	2,324	137	6.3%	9,007	9,451	444	4.9%
Yield (%)	61.0%	61.6%	0.6 p.p.	-	60.5%	64.1%	3.6 p.p.	-
Sale of commercial coal	2,155	2,298	143	6.6%	8,943	9,359	416	4.7%
New excavations (km)	8.4	7.4	-1.0	-11.9%	37.0	29.1	-7.9	-21.4%

Inventories of commercial coal of the Company

['000 tonnes]	31 Dec. 2018	30 Sep. 2019	31 Dec. 2019	Change [%] 31 Dec. 2019/ 31 Dec. 2018	Change [%] 31 Dec. 2019/ 30 Sep. 2019
Inventories of coal	88	153	179	103.4%	17.0%

Structure of commercial coal production

[%]	Q4 2018	Q4 2019	2018	2019
Fine coal	99.1%	99.2%	98.8%	99.3%
Nut coal	0.1%	0.0%	0.2%	0.0%
Pea coal	0.8%	0.8%	1.0%	0.7%
Total	100.0%	100.0%	100.0%	100.0%

Production of coal

- (-) gross extraction of coal in 2019 decreased by 1.0%, i.e. 153,000 tonnes
- (+) production of commercial coal in 2019 was 9,451,000 tonnes, i.e. more by 4.9% (+444,000 tonnes) than in 2018
- (+) yield for 2019 was 64.1% compared to 60.5% for 2018

Sale of coal

- (+) in Q4 2019 the sales of coal increased by 6.6% compared to Q4 2018
- (+) in 2019 the sales of commercial coal amounted to 9,359,000 tonnes, i.e. by 4.7% more than in 2018
- (-) transport-related limitations due to the modernisation of Line 7 (the main and shortest transport route for Enea Wytwarzanie sp. z o.o., Elektrownia Kozienice)

Inventories

- (+) at the end of Q4 2019, the level of coal inventories amounted to 179,000 tonnes, which means an increase by 91,000 tonnes compared to the level as at 31 December 2018
- (+) the level of coal inventories presented at the end of Q4 2019 corresponds approximately to 3 days of commercial coal production (on the basis of average daily production for 12 months)
- (+) relatively low level of inventories of coal is a result of the achieved coal production and coal sales
- (+) the level of inventories allows the mine to operate safely in the event of problems with coal removal.

Structure of commercial coal production

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



Revenue and key customers of the LW Bogdanka Group

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2018	Q4 2019	Change	Change %	2018	2019	Change	Change %
Sale of coal	407,942	519,255	111,313	27.3%	1,707,797	2,109,274	401,477	23.5%
Other activities	8,201	8,842	641	7.8%	30,099	31,111	1,012	3.4%
Sale of goods and materials	4,891	3,652	-1,239	-25.3%	18,775	17,476	-1,299	-6.9%
Total	421,034	531,749	110,715	26.3%	1,756,671	2,157,861	401,190	22.8%

Structure of revenue

[%]	Q4 2018	Q4 2019	2018	2019
Sale of coal	96.9%	97.6%	97.2%	97.8%
Other activities	1.9%	1.7%	1.7%	1.4%
Sale of goods and materials	1.2%	0.7%	1.1%	0.8%
Total	100.0%	100.0%	100.0%	100.0%

Geographical structure of revenue

[PLN '000]	Q4 2018	Structure	Q4 2019	Structure	2018	Structure	2019	Structure
Domestic sales	421,010	100.0%	531,703	100.0%	1,756,538	100.0%	2,157,778	100.0%
Foreign sales	24	0.0%	46	0.0%	133	0.0%	83	0.0%
Total	421,034	100.0%	531,749	100.0%	1,756,671	100.0%	2,157,861	100.0%

Geographical structure of revenue

The activities of the Group are primarily concentrated in Poland. In Q4 2019 and in the whole 2019 the exports of goods and products included primarily sale of coal. In 2019 the value of exports in the total revenue was PLN 83,000, while in 2018 the figure was PLN 133,000.

Revenue

(+) in Q4 2019 the Group's revenue amounted to PLN 531,749,000, which represents an increase by 26.3% compared to Q4 2018

(+) in the whole 2019 the revenue amounted to PLN 2,157,861,000 compared to PLN 1,756,671,000 in 2018, which means an increase in by 22.8% 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 Q4 2019 revenue on other operations (which includes revenue of subsidiaries) were PLN 8,842,000 (1.7% of total revenue), compared to PLN 8,201,000 (1.9% of revenue) in the analogous period of 2018 (up by 7.8% y/y). A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the Company 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 the whole 2019 revenue on other operations was PLN 31,111,000 compared to PLN 30,099,000, and stood at almost the same level than in the previous year.

Lower value of revenue on sales of goods and materials is a consequence of lower scrap sales (i.e. lining recovered from closing galleries, which cannot be regenerated and reused). This is a result of increasing the regeneration of lining and greater degree of their recovery, hence smaller amount of scrap.

Key customers

More than 93% of coal sales (in terms of value) in 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., and Grupa Azoty Zakłady Azotowe Puławy S.A. In 2018 the share of the above customers was similar. Key customers by share in revenue:

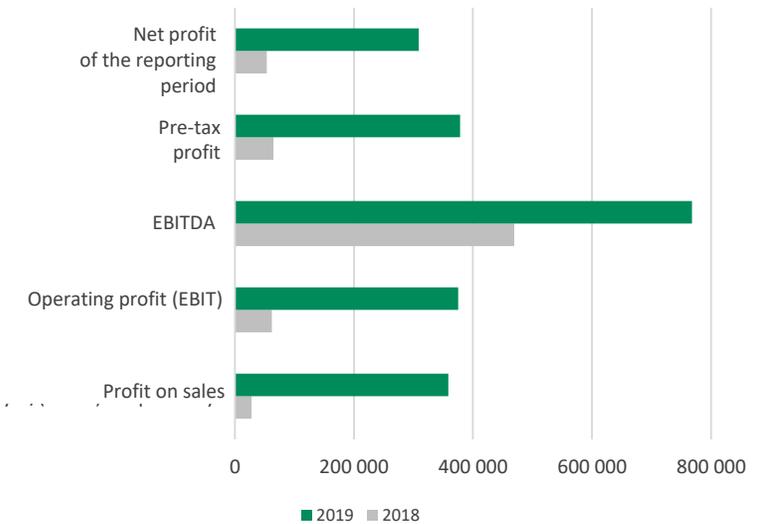
- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 65% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 18% share in the revenue



Financial highlights of the LW Bogdanka Group

Analysis of the consolidated income statement

[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Revenue	421,034	531,749	26.3%	1,756,671	2,157,861	22.8%
Costs of products, goods and materials sold, selling costs and administrative expenses	454,265	477,675	5.2%	1,728,459	1,799,446	4.1%
Profit/(loss) on sales	-33,231	54,074	-	28,212	358,415	1,170.4%
Gross sales margin	-7.9%	10.2%	18.1 p.p.	1.6%	16.6%	15 p.p.
Other income	3,796	1,981	-47.8%	34,621	5,267	-84.8%
Other costs	42	499	1,088.1%	1,118	1,212	8.4%
Net operating profit/(loss)	-29,477	55,556	-	61,715	362,470	487.3%
Other profits/(losses) - net	-1,109	-13	-98.8%	312	12,752	3,987.2%
Net operating profit/(loss) (EBIT)	-30,586	55,543	-	62,027	375,222	504.9%
EBIT margin	-7.3%	10.4%	17.7 p.p.	3.5%	17.4%	13.9 p.p.
EBITDA	69,746	156,246	124.0%	469,191	767,592	63.6%
EBITDA margin	16.6%	29.4%	12.8 p.p.	26.7%	35.6%	8.9 p.p.
Finance income	2,691	3,927	45.9%	14,542	14,733	1.3%
Finance costs	52	3,410	6,457.7%	11,649	11,379	-2.3%
Profit/(loss) before taxation	-27,947	56,060	-	64,920	378,576	483.1%
Pre-tax profit margin	-6.6%	10.5%	17.1 p.p.	3.7%	17.5%	13.8 p.p.
Income tax	-5,730	11,268	-	11,124	69,830	527.7%
Net profit/(loss)	-22,217	44,792	-	53,796	308,746	473.9%
Net sales margin	-5.3%	8.4%	13.7 p.p.	3.1%	14.3%	11.2 p.p.





Financial highlights LW Bogdanka Group

Revenue

The value of revenue for Q4 2019 increased by 26.3% compared to the same period of the previous year and amounted to PLN 531,749,000. In the whole 2019 the Group generated revenue in the amount of PLN 2,157,861,000 compared to PLN 1,756,671,000 in 2018 (up by 22.8%).

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

In Q4 2019 costs of products, goods and materials sold plus selling costs and administrative expenses amounted to PLN 477,675,000, i.e. they went up by 23,410,000 compared to the same period of the previous year (PLN 454,265,000).

In 2019 the cost of products, goods and materials sold as well as selling costs and administrative expenses increased from PLN 1,728,459,000 to PLN 1,799,446,000.

Profit/(loss) on sales

In Q4 2019 profit on sales amounted to PLN 54,074,000, while in the same period of 2018 loss on sales was recorded and amounted to PLN 33,231,000. The Group closed 2019 with a profit on sales in the amount of PLN 358,415,000, versus PLN 28,212,000 in 2018.

Other income

In Q4 2019 other income amounted to PLN 1,981,000 compared to PLN 3,796,000 a year before.

In 2019 other income amounted to PLN 5,267,000 compared to PLN 34,621,000 a year before. In 2018 the Parent settled with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras (positive impact on the result of PLN 28,666,000) and settled with Wonam (PLN +2,499,000).

Other costs

Other costs in 2018 amounted to PLN 1,118,000 while in 2019 the figure was PLN 1,212,000 – a dominant item in both periods were damages paid and donations granted.

Other profits/(losses) - net

Other net losses in Q4 2019 amounted to PLN 13,000 compared to PLN 1,109,000 in Q4 2018 – which means their decrease by PLN 1,096,000.

Other net profit in 2019 amounted to PLN 12,752,000 compared to PLN 312,000 in 2018 (in relation to a release of a provision for disputable claim of the Social Security Institution (ZUS)).

EBIT

Operating result in Q4 2019 amounted to PLN 55,543,000. EBIT margin in the fourth quarter of 2019 was 10.4%, i.e. it was higher by 17.7 p.p. than in the fourth quarter of the previous year.

EBIT margin for the whole 2019 was higher by 13.9 p.p. compared to the 2018, and accounted for 17.4%.

EBITDA

EBITDA in Q4 2019 increased by 124.0% compared to Q4 2018, and amounted to PLN 156,246,000. EBITDA margin in Q4 2019 equalled 29.4%, which shows an increase compared to the same period of 2018.

In 2019 the Group achieved an EBITDA margin of 35.6%, i.e. 8.9 p.p. more year on year compared to 2018 (while the EBITDA amount increased by 63.6% in the analysed period). In 2019, EBITDA amounted to PLN 767,592,000, compared to PLN 469,191,000 in 2018.

Finance income

Finance income in Q4 2019 amounted to PLN 3,927,000 (+45.9%). In the whole 2019 finance income was PLN 14,733,000 (+1.3% y/y). Increase in revenue in the whole 2019 is attributable primarily to a release of provision for interest on disputable claim of the Social Security Institution (ZUS) and

profit/(loss) on the settlement of interest on real property tax (overpayments and liabilities/provisions).

Finance costs

In Q4 2019 finance costs were higher than the costs in the same period of 2018, and amounted to PLN 3,410,000. Finance costs for the whole 2019 amounted to PLN 11,379,000 compared to PLN 11,649,000 in 2018 (decrease by 2.3%). As at 31 December 2019 total debt of the Group amounted to PLN 14,076,000, compared the Group's debt of PLN 17,142,000 as at 31 December 2018.

Profit/(loss) before taxation

In Q4 2019 the Group generated pre-tax profit of PLN 56,060,000 compared to a loss of PLN 27,947,000 in Q4 2018. Profit/(loss) before taxation for the whole 2019 amounted to PLN 378,576,000 against PLN 64,920,000 in 2018.

Net profit/(loss) for the reporting period

In Q4 2019 the Group generated net profit of PLN 44,792,000 compared to the loss of PLN 22,217,000 in Q4 2018.

The net profit of the Group for four quarters of 2019 was PLN 308,746,000 compared to PLN 53,796,000 in the analogous period of the previous financial year.



Balance sheet of the LW Bogdanka Group

Balance sheet

[PLN '000]	31 Dec. 2018	31 Dec. 2019	Change
Total assets	3,933,351	4,252,464	8.1%
Return on Assets (ROA)*	1.3%	7.5%	6.2 p.p.
Non-current assets	3,463,822	3,509,780	1.3%
Current assets	469,529	742,684	58.2%
Equity	2,950,116	3,228,502	9.4%
Return on Equity (ROE)*	1.8%	10.0%	8.2 p.p.
Provisions and liabilities	983,235	1,023,962	4.1%

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

Assets

The balance-sheet total as at 31 December 2019 compared to the value as at 31 December 2018 went up by PLN 319,113,000 and amounted to PLN 4,252,464,000, with non-current assets going up by PLN 45,958,000 and current assets going up by PLN 273,155,000. Within current assets, primarily the value of trade and other receivables went up by 17.4%, and cash and cash equivalents - by 124.1%.

As at 31 December 2019 the ROA figure was 7.5%, while as at the end of 2018 it was 1.3%.

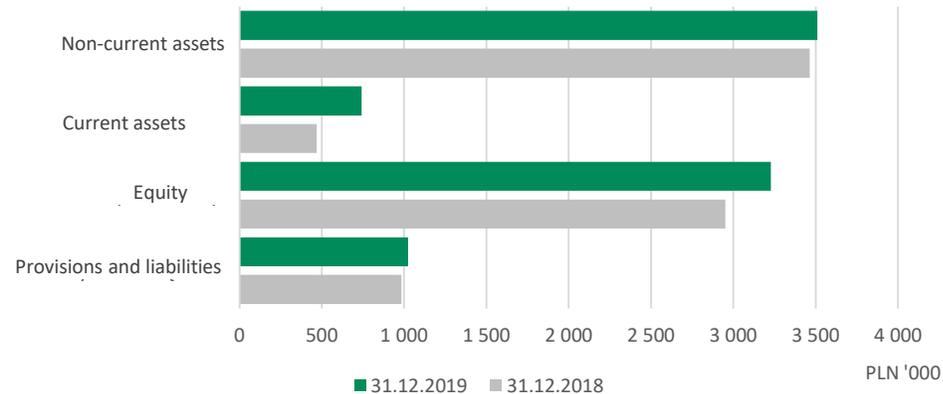
Equity and liabilities

The equity went up by 9.4%. It was an effect of the comprehensive income generated for 2019 and payment of dividend in 2018.

Provisions and liabilities went up by 4.1% compared to the value as at 31 December 2018, with current liabilities going down by 16.3% (main drop in trade and other liabilities), while non-current liabilities went up by 21.1% (including mainly growth in liabilities on employee benefits, liabilities on account of the deferred income tax and provisions for other liabilities and charges, as well as lease liabilities due to the application in 2019 of IFRS 16 "Leases").

At 31 December 2019 an increase in ROE was recorded (by 8.2 p.p.) compared to the end of 2018. The value of the ratio as at 31 December 2019 was 10.0% compared to 1.8% as at 31 December 2018.

Analysis of the consolidated statement of financial position



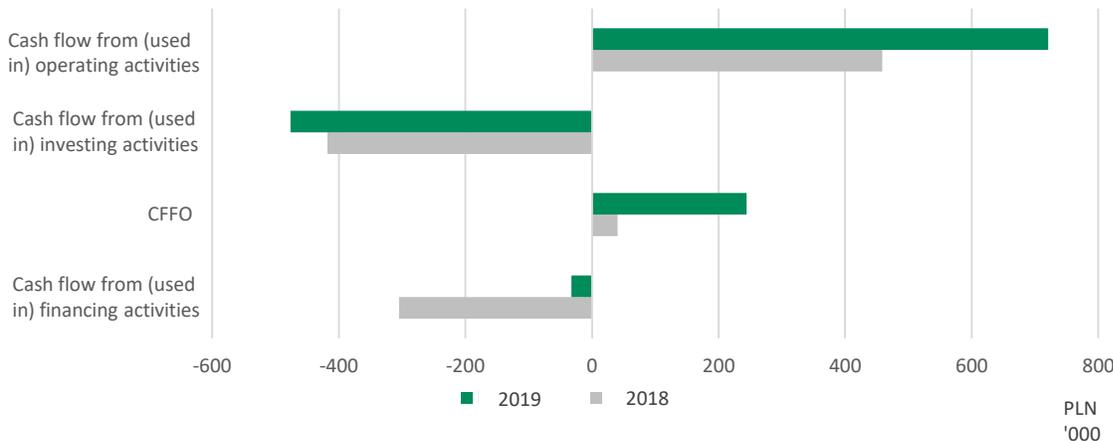


Cash flow LW Bogdanka Group

Cash flow

[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Cash flow from (used in) operating activities	98,635	206,503	109.4%	458,874	720,977	57.1%
Cash flow from (used in) investing activities	-40,756	-119,767	193.9%	-418,232	-476,533	13.9%
CFFO*	57,879	86,736	49.9%	40,642	244,444	501.5%
Cash flow from (used in) financing activities	-150,942	-1,446	-99.0%	-304,777	-32,497	-89.3%

*total cash flow from operating and investing activity



In Q4 2019 the Group generated net cash flow from operating activities higher by 109.4% than in Q4 2018 – in 2019 it amounted to PLN 206,503,000 compared to PLN 98,635,000 a year before. During the whole 2019, the LW Bogdanka Group generated cash flow from operating activities in the amount of PLN 720,977,000 (+57.1% y/y). The increase, visible in the whole 2019, by PLN 262,103,000 in cash flow from operating activities results mainly from an increase in pre-tax profit/loss (pre-tax profit/loss in 2018 was PLN 64,920,000 while in 2019 – PLN 378,576,000, which means growth by PLN 313,656,000).

Cash flow from investing activities increased its value (in absolute values) in Q4 2019 by 193.9% (to PLN -119,767,000) relative to the analogous period of 2018. In the whole 2019 cash flow from investing activity was lower by 13.9% from cash flow from the analogous period last year.

In Q4 2019, the Group recorded negative cash flow from financing activities of PLN 1,446,000 (loan of PLN 759,000 was repaid, interest of PLN 152,000 was paid as well as a lease payment of PLN 650,000).

In the whole 2019, the Group recorded negative cash flow from financing activities of PLN 32,497,000 (dividend of PLN 25,510,000 was paid, loans and borrowings worth PLN 3,036,000 were repaid, interest of PLN 651,000 was paid, as well as payments under lease agreements were made in the amount of PLN 3,415,000); moreover a grant of PLN 115,000 was received.



Debt and liquidity ratios LW Bogdanka Group

Cash flow

[PLN '000]	31 Dec. 2018	31 Dec. 2019	Change
Overall debt ratio	25.0%	24.1%	-0.9 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.39	0.27	-30.8%
Net debt ratio/EBITDA*	-0.33	-0.48	45.5%
Debt to equity ratio	33.3%	31.7%	-1.6 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	97.1%	105.6%	8.5 p.p.
Current debt ratio (current liabilities/equity and liabilities)	11.4%	8.8%	-2.6 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	13.6%	15.3%	1.7 p.p.

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

	31 Dec. 2018	31 Dec. 2019	Change
Current liquidity ratio	1.28	2.13	66.4%
Quick liquidity ratio	1.05	1.83	74.3%

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

Overall debt ratio

The overall debt ratio as at 31 December 2019 went down by 0.9 p.p. compared to 31 December 2018 and reached 24.1% – value of equity and liabilities increased by a higher value (mainly due to retained profit) in relation to liabilities.

The level of the Group's debts as at 31 December 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 Q4 2019 dropped by 30.8% to 0.27. When comparing data as at 31 December 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 -0.33 as at 31 December 2018 to -0.48 as at 31 December 2019. The value of net debt dropped by ca. PLN 215 million and amounted to PLN -369 million with EBITDA going up by ca. PLN 298 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2019 decreased in relation to 31 December 2018 by 1.6 p.p. and was 31.7% - liabilities dropped by ca. PLN 41 million along with an increase in equity by ca. PLN 278 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 105.6% (as at 31 December 2019) compared to 97.1% (as at 31 December 2018) – in the analysed period the value of non-current assets increased by approx. PLN 46 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 344 million.



Turnover ratios at the LW Bogdanka Group

Turnover ratios

[PLN '000]		31 Dec. 2018	31 Dec. 2019	Change
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	17	21	23.5%
2. Debtors collection rate*	$\frac{\text{Average receivables}}{\text{revenue}} \times \text{days in the period}$	43	37	-14.0%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	74	71	-4.1%
4. Operating cycle	1+2	60	58	-3.3%
5. Cash conversion cycle	4-3	-14	-13	-7.1%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover

The inventory turnover as at 31 September 2019 went up to 21 days, compared 31 December 2018. Disposal of inventories takes on average 4 days more.

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 37 days (as at 31 December 2019), compared to 43 days (as at 31 December 2018). In the period under analysis, average receivables grew by approx. PLN 15 million, with the revenue going up by approx. PLN 401 million.

Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") as at the end of 2019 got shorter by 3 days to ca. 71 days, as compared to the figure as at the end of 2018. In the analysed period the Group had a lower average level of current trade liabilities (by approx. PLN 2 million) with higher costs of products, goods and materials sold (by approx. PLN 62 million).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period shortened to 58 days. On average after 58 days, the Group's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2019 was 13 days. The negative value of the cash conversion cycle means that the Group uses trade credit (financing with the non-interest-bearing borrowed capital).



Provisions of the LW Bogdanka Group

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2018	As at 31 Dec. 2019	Change 31 Dec. 2019/ 31 Dec. 2018
Employee provisions	165,156	191,965	16.2%
Provision for real property tax	41,431	10,306	-75.1%
Provision for the mine closure costs and land reclamation	124,207	171,635	38.2%
Mining damage	3,184	2,149	-32.5%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	22,658	-	-100.0%
Other	11,883	12,237	3.0%
Total	368,519	388,292	5.4%

The total provisions as at 31 December 2019 amounted to PLN 388,292,000, which means an increase by 5.4% compared to the value as at 31 December 2018.

Change in provisions

[PLN '000]	Change Q4 2018	Change Q4 2019	Change Q4 2019/ Q4 2018	Change in 2018	Change in 2019	Change 2019/ 2018
Employee provisions	6,657	17,349	160.6%	8,135	26,809	229.6%
Provision for real property tax	-7,494	-8,944	19.3%	-922	-31,125	3,275.8%
Provision for the mine closure costs and land reclamation	-698	32,844	-	9,759	47,428	386.0%
Mining damage	-266	-349	31.2%	-1,250	-1,035	-17.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	335	0	-	1,318	-22,658	-
Other	-270	-183	-32.2%	-5,760	354	-
Total	-1,736	40,717	-	11,280	19,773	75.3%

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

[PLN '000]	Change of provisions in 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	26,809	41,660	4,261	-	5,988	-25,100
Provision for real property tax	-31,125	3,713	2,020	-	-	-36,858
Provision for the mine closure costs and land reclamation	47,428	-618	4,000	44,046	-	-
Mining damage	-1,035	-282	-	-	-	-753
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-22,658	-16,398	-6,260	-	-	-
Other	354	438	237	-	-	-321
Total	19,773	28,513	4,258	44,046	5,988	-63,032

[PLN '000]	Change in provisions in Q4 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	17,349	19,328	1,134	-	5,207	-8,320
Provision for real property tax	-8,944	-	238	-	-	-9,182
Provision for the mine closure costs and land reclamation	32,844	-1,842	1,281	33,405	-	-
Mining damage	-349	-282	-	-	-	-67
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-	-	-	-	-	-
Other	-183	-47	15	-	-	-151
Total	40,717	17,157	2,668	33,405	5,207	-17,720



Revenue and key customers of LW Bogdanka S.A.

Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2018	Q4 2019	Change	Change %	2018	2019	Change	Change %
Sale of coal	410,821	521,831	111,010	27.0%	1,715,416	2,116,416	401,000	23.4%
Other activities	4,858	5,566	708	14.6%	20,705	20,701	-4	0.0%
Sale of goods and materials	4,956	3,621	-1,335	-26.9%	18,775	17,392	-1,383	-7.4%
Total	420,635	531,018	110,383	26.2%	1,754,896	2,154,509	399,613	22.8%

Structure of revenue

[%]	Q4 2018	Q4 2019	2018	2019
Sale of coal	97.7%	98.3%	97.7%	98.2%
Other activities	1.1%	1.0%	1.2%	1.0%
Sale of goods and materials	1.2%	0.7%	1.1%	0.8%
Total	100.0%	100.0%	100.0%	100.0%

Geographical structure of revenue

[PLN '000]	Q4 2018	Structure	Q4 2019	Structure	2018	Structure	2019	Structure
Domestic sales	420,538	100.0%	530,972	100.0%	1,754,763	100.0%	2,154,426	100.0%
Foreign sales	97	0.0%	46	0.0%	133	0.0%	83	0.0%
Total	420,635	100.0%	531,018	100.0%	1,754,896	100.0%	2,154,509	100.0%

Geographical structure of revenue

The Company operates primarily in Poland. In Q4 2019 and in the whole 2019 the exports of goods and products included primarily sale of coal. In 2019 the value of exports in the total revenue was PLN 83,000, while in 2018 the figure was PLN 133,000.

Revenue

(+) in Q4 2019 the Company's revenue amounted to PLN 531,018,000, which represents an increase by 26.2% compared to Q4 2018

(-) in the whole 2019 the revenue amounted to PLN 2,154,509,000 compared to PLN 1,754,896,000 in 2018, which means a drop in revenue by 22.8% y/y

(+) the main source of revenue at LW Bogdanka S.A. is the production and sale of thermal coal. In each of the compared reporting periods this activity generates approximately 98% of the LW Bogdanka S.A.'s revenue.

Revenue on other operations

In Q4 2019 revenue on other operations were PLN 5,566,000 compared to PLN 4,858,000 in the analogous period of 2018 (down by 14.6% y/y). A significant share in that group of revenue was held by:

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

In the whole 2019 revenue on other operations was PLN 20,701,000 and stood at the same level than in the previous year.

Lower value of revenue on sales of goods and materials is a consequence of lower scrap sales (i.e. lining recovered from closing galleries and greater degree of their recovery due to their greater recovery).

Key customers

More than 93% of coal sales (in terms of value) in 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., and Grupa Azoty Zakłady Azotowe Puławy S.A. In 2018 the share of the above customers was similar.

Key customers by share in revenue:

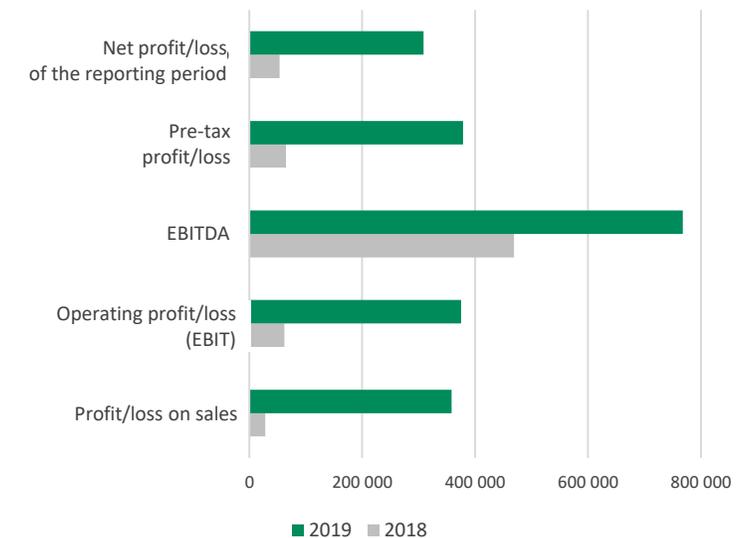
- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 65% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 19% share in the revenue



Financial highlights LW Bogdanka S.A.

Analysis of the income statement

[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Revenue	420,635	531,018	26.2%	1,754,896	2,154,509	22.8%
Costs of products, goods and materials sold, selling costs and administrative expenses	454,197	476,096	4.8%	1,730,817	1,801,316	4.1%
Profit/(loss) on sales	-33,562	54,922	-	24,079	353,193	1,366.8%
Gross sales margin	-8.0%	10.3%	18.3 p.p.	1.4%	16.4%	15 p.p.
Other income	3,513	1,838	-47.7%	33,869	4,683	-86.2%
Other costs	33	498	1,409.1%	1,048	1,203	14.8%
Net operating profit/(loss)	-30,082	56,262	-	56,900	356,673	526.8%
Other profits/(losses) - net	-1,110	83	-	318	12,847	3,939.9%
Net operating profit/(loss) (EBIT)	-31,192	56,345	-	57,218	369,520	545.8%
EBIT margin	-7.4%	10.6%	18.0 p.p.	3.3%	17.2%	13.9 p.p.
EBITDA	66,952	154,552	130.8%	455,396	752,135	65.2%
EBITDA margin	15.9%	29.1%	13.2 p.p.	26.0%	34.9%	8.9 p.p.
Finance income	2,638	3,870	46.7%	15,338	15,719	2.5%
Finance costs	-197	3,197	-	10,830	10,617	-2.0%
Profit/(loss) before taxation	-28,357	57,018	-	61,726	374,622	506.9%
Pre-tax profit margin	-6.7%	10.7%	17.4 p.p.	3.5%	17.4%	13.9 p.p.
Income tax	-5,825	11,163	-	10,129	68,438	575.7%
Net profit/(loss)	-22,532	45,855	-	51,597	306,184	493.4%
Net sales margin	-5.4%	8.6%	14.0 p.p.	2.9%	14.2%	11.3 p.p.





Financial highlights LW Bogdanka S.A.

Revenue

The value of revenue for Q4 2019 increased by 26.2% compared to the same period of the previous year and amounted to PLN 531,018,000. In the whole 2019 the Company generated revenue at a level of PLN 2,154,509,000 compared to PLN 1,754,896,000 in 2018 (up by 22.8%).

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 476,096,000, i.e. they went up by 21,899,000 (+4.8%) compared to the same period of the previous year (PLN 454,197,000). In 2019 the cost of products, goods and materials sold as well as selling costs and administrative expenses increased from PLN 1,730,817,000 in the previous year to PLN 1,801,316,000. Increase by 4.1%.

Profit/(loss) on sales

In Q4 2019 profit on sales amounted to PLN 54,922,000, while in the same period of 2018 loss on sales was recorded and amounted to PLN -33,562,000. The Company closed 2019 with a profit on sales in the amount of PLN 353,193,000, versus PLN 24,079,000 in 2018.

Other income

In Q4 2019 other income amounted to PLN 1,838,000 compared to PLN 3,513,000 a year before (of which a dominant item were liquidated damages received and return of the excise tax). In 2019 other income amounted to PLN 4,683,000 compared to PLN 33,869,000 a year before. In 2018 the Parent settled with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras (positive impact on the result of PLN 28,666,000) and settled

with Wonam (PLN +2,499,000).

Other costs

Other costs in 2018 amounted to PLN 1,048,000 while in 2019 the figure was PLN 1,203,000 – a dominant item in both periods were damages paid and donations granted.

Other profits/(losses) - net

In Q4 2019 other net profits amounted to PLN 83,000 compared to the loss of PLN 1,110,000 in Q4 2018.

Other net profit in the whole 2019 amounted to PLN 12,847,000 compared to PLN 318,000 in 2018 (in relation to a release of a provision for disputable claim of the Social Security Institution (ZUS).

EBIT

Operating result in Q4 2019 amounted to PLN 56,345,000. EBIT margin in the fourth quarter of 2019 was 10.6%, i.e. it was higher by 18.0 p.p. than in the fourth quarter of the previous year. EBIT margin for the whole 2019 was higher by 13.9 p.p. compared to the 2018, and accounted for 17.2%.

EBITDA

EBITDA in Q4 2019 decreased by 130.8% compared to Q4 2018 and amounted to PLN 154,552,000. EBITDA margin in Q4 2019 equalled 29.1%, which shows an increase compared to the same period of 2018. In 2019 the Company achieved an EBITDA margin of 34.9%, i.e. 8.9 p.p. more year on year compared to 2018 (while the EBITDA amount increased by 65.2% in the analysed period). In 2019, EBITDA amounted to PLN 752,135,000, compared to PLN 455,396,000 in 2018.

Finance income

Finance income in Q4 2019 amounted to PLN 3,870,000 (+46.7% y/y). In the whole 2019 finance income was PLN 15,719,000 (+2.5% y/y). Increase in revenue in the whole 2019 is attributable primarily

to a release of provision for interest on disputable claim of the Social Security Institution (ZUS) and profit/(loss) on the settlement of interest on real property tax (overpayments and liabilities/provisions).

Finance costs

In Q4 2019 finance costs were higher than the costs in the same period of 2018, and amounted to PLN 3,197,000. Finance costs for the whole 2019 amounted to PLN 10,617,000 compared to PLN 10,830,000 in 2018 (decrease by 2.0%). As at 31 December 2019, the Company did not hold any interest-bearing debt.

Profit/(loss) before taxation

In Q4 2019 the Company generated pre-tax profit of PLN 57,018,000 compared to the pre-tax loss of PLN -28,357,000 in Q4 2018. Profit before taxation for the whole 2019 amounted to PLN 374,622,000 against PLN 61,726,000 in the same period of 2018.

Net profit/(loss) for the reporting period

In Q4 2019 the Company achieved net profit of PLN 45,855,000 compared to the net loss of PLN -22,532,000 in Q4 2018. The net profit of the Group for four quarters of 2019 was PLN 306,184,000 compared to PLN 51,597,000 in the analogous period of the previous financial year.



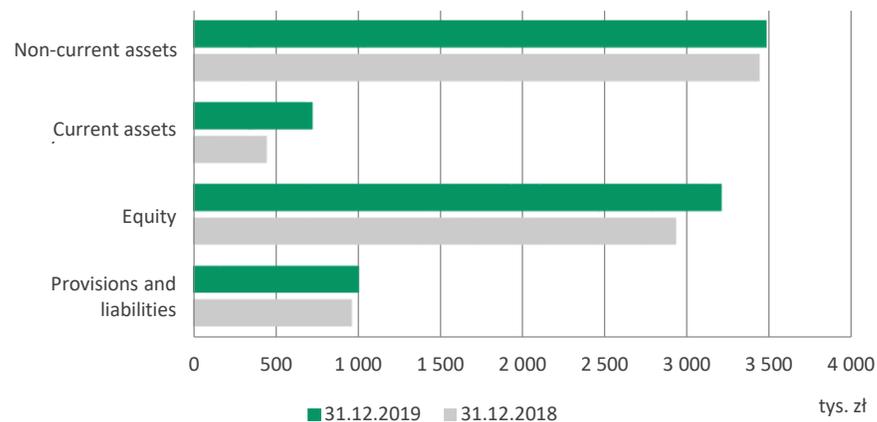
Balance sheet of LW Bogdanka S.A.

Balance sheet

[PLN '000]	31 Dec. 2018	31 Dec. 2019	Change
Total assets	3,893,715	4,208,383	8.1%
Return on Assets (ROA)*	1.3%	7.6%	6.3 p.p.
Non-current assets	3,444,475	3,485,102	1.2%
Current assets	449,240	723,281	61.0%
Equity	2,930,989	3,206,870	9.4%
Return on Equity (ROE)*	1.8%	10.0%	8.2 p.p.
Provisions and liabilities	962,726	1,001,513	4.0%

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

Analysis of the separate statement of financial position



Assets

The balance-sheet total as at 31 December 2019 went up to PLN 4,208,383,000 (i.e. by PLN 314,668,000) compared to the value as at 31 December 2018, with non-current assets going up by PLN 40,627,000 and current assets going up by PLN 274,041,000. In current assets, an increase was recorded in inventories (+26.3%), trade and other receivables (+17.4%), overpaid income tax (+46.4%) as well as cash and cash equivalents (+137.4%). As at 31 December 2019 the ROA figure was 7.6%, while as at the end of 2018 it was 1.3%.

Equity and liabilities

The equity went up by 9.4%. It was an effect of the comprehensive income disclosed for 2019 and payment of dividend for 2018.

Provisions and liabilities went up by 4.0% compared to the value as at 31 December 2018, with current liabilities going down by 16.8% (main drop in trade and other liabilities and provisions for other liabilities and charges), while non-current liabilities went up by 21.8% (including mainly growth in liabilities on account of the deferred income tax, liabilities on employee benefits, provisions for other liabilities and charges, and subsidies; lease liabilities due to the application in 2019 of IFRS 16 "Leases" were also recognised).

At 31 December 2019 an increase in ROE was recorded (by 8.2 p.p.) compared to the end of 2018. The value of the ratio as at 31 December 2019 was 10.0% compared to 1.8% as at 31 December 2018.





Cash flow
LW Bogdanka S.A.

Cash flow

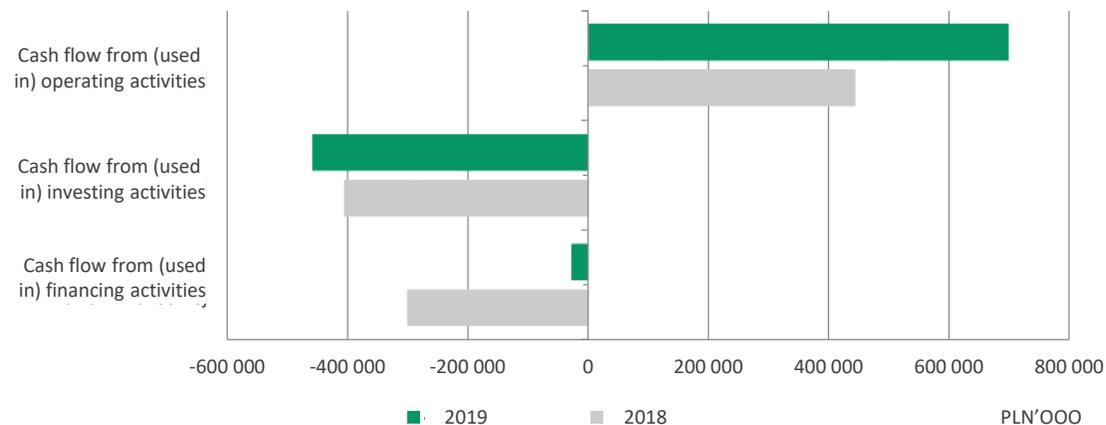
[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Cash flow from (used in) operating activities	96,125	206,545	114.9%	444,025	699,937	57.6%
Cash flow from (used in) investing activities	-37,021	-114,525	209.4%	-405,362	-458,851	13.2%
CFFO*	59,104	92,020	55.7%	38,663	241,086	523.6%
Cash flow from (used in) financing activities	-150,001	-528	-99.6%	-300,968	-28,709	-90.5%

*total cash flow from operating and investing activity

In Q4 2019 the Company generated net cash flow from operating activities higher by 114.9% than in Q4 2018 – in Q4 2019 it amounted to PLN 206,545,000 compared to PLN 96,125,000 a year before. In 2019, the Company generated cash flow from operating activities in the amount of PLN 699,937,000 (+57.6% y/y).

Cash flow from investing activities increased its value (in absolute values) in Q4 2019 by 209.4% (to PLN 114,525,000) relative to the analogous period of 2018. Cumulative for 12 months of 2019 cash flow from investing activity was lower by 13.2% from cash flow from the analogous period last year.

In Q4 2019, the Company recorded negative cash flow from financing activities of PLN 528,000 (resulting from payments of liabilities under financial lease agreements). In the whole 2019, the Company also generated negative cash flows from financing activities of PLN 28,709,000 (dividend of PLN 25,510,000 was paid, payments of liabilities under financial lease agreements were made in the amount of PLN 3,314,000) and a subsidy of PLN 115,000 was received.



**Debt and liquidity ratios****LW Bogdanka S.A.****Cash flow**

[PLN '000]	31 Dec. 2018	31 Dec. 2019	Change
Overall debt ratio	24.7%	23.8%	-0.9 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.45	0.25	-44.4%
Net debt ratio/EBITDA*	-0.43	-0.49	14.0%
Debt to equity ratio	32.8%	31.2%	-1.6 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	96.6%	105.3%	8.7 p.p.
Current debt ratio (current liabilities/equity and liabilities)	11.4%	8.8%	-2.6 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	13.3%	15.0%	1.7 p.p.

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

	31 Dec. 2018	31 Dec. 2019	Change
Current liquidity ratio	1.23	2.10	70.7%
Quick liquidity ratio	1.01	1.81	79.2%

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

Overall debt ratio

The overall debt ratio as at 31 December 2019 went down by 0.9 p.p. compared to 31 December 2018 and reached 23.8% – value of equity and liabilities increased in relation to liabilities mainly due to retained profit.

The level of the Company's debts as at 31 December 2019 did not pose any risk to the Company's operation and its ability to settle liabilities in a timely manner. The Company's financial needs are subject to medium-term and long-term analyses in order to secure liquidity and cash at proper levels.

Ratio debt plus employee liabilities/EBITDA

The ratio describing debt to EBITDA at the end of Q4 2019 dropped by 44.4% to 0.25. When comparing data as at 31 December 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 -0.43 as at 31 December 2018 to -0.49 as at 31 December 2019. The value of net debt dropped by ca. PLN 212 million and amounted to PLN -367 million with EBITDA going up by ca. PLN 297 million (EBITDA cumulatively for the last four quarters).

Debt to equity ratio

Debt to equity ratio as at 31 December 2019 decreased in relation to 31 December 2018 by 1.6 p.p. and was 31.2% - liabilities went up by ca. PLN 39 million along with an increase in equity by ca. PLN 276 million.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 105.3% (as at 31 December 2019) compared to 96.6% (as at 31 December 2018) – in the analysed period the value of non-current assets increased by approx. PLN 41 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 342 million.



Turnover ratios at LW Bogdanka S.A.

Turnover ratios		31 Dec. 2018	31 Dec. 2019	Change
[PLN '000]				
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	16	18	12.5%
2. Debtors collection rate*	$\frac{\text{Average receivables}}{\text{revenue}} \times \text{days in the period}$	43	38	-11.6%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	74	69	-6.8%
4. Operating cycle	1+2	59	56	-5.1%
5. Cash conversion cycle	4-3	-15	-13	-13.3%

* Trade and other receivables

** Trade and other liabilities

Inventory turnover

The inventory turnover ratio as at 31 December 2019 increased to 18 days, compared 31 December 2018. Disposal of inventories takes on average 2 days more.

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 38 days (as at 31 December 2019), compared to 43 days (as at 31 December 2018). The drop in the ratio's value is attributable to a higher average level of receivables with a significantly higher average level of the revenue.

Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") as at the end of 2019 got shorter by 5 days to ca. 69 days, as compared to the figure as at the end of 2018. In the analysed period the Group had a lower average level of current trade liabilities (by approx. PLN 10 million) with higher costs of products, goods and materials sold (by approx. PLN 61 million).

Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period shortened to 56 days. On average after 56 days, the Company's current assets are converted into cash.

Cash conversion cycle

The consequence of the above trends, the cash conversion cycle as at 31 December 2019 was -13 days. The negative value of the cash conversion cycle means that the Company trade credit (financing with the non-interest-bearing borrowed capital).





Provisions in LW Bogdanka S.A.

Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2018	As at 31 Dec. 2019	Change 2019/2018
Employee provisions	161,735	187,230	15.8%
Provision for real property tax	41,431	10,306	-75.1%
Provision for the mine closure costs and land reclamation	124,207	171,635	38.2%
Mining damage	3,184	2,149	-32.5%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	22,658	-	-
Other	11,858	12,208	3.0%
Total	365,073	383,528	5.1%

The total provisions as at 31 December 2019 amounted to PLN 383,528,000, which means an increase by 5.1% compared to the value as at 31 December 2018.

Change in provisions

[PLN '000]	Change Q4 2018	Change Q4 2019	Change Q4 2019/Q4 2018	Change in 2018	Change in 2019	Change 2019/2018
Employee provisions	7,774	18,040	132.1%	8,173	25,495	211.9%
Provision for real property tax	-7,494	-8,944	19.3%	-922	-31,125	3,275.8%
Provision for the mine closure costs and land reclamation	-698	32,844	-	9,759	47,428	386.0%
Mining damage	-266	-349	31.2%	-1,250	-1,035	-17.2%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	335	-	-	1,318	-22,658	-
Other	-238	-118	-50.4%	-5,559	350	-
Total	-587	41,473	-	11,519	18,455	60.2%

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

[PLN '000]	Change of provisions in 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	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	25,495	39,590	4,194	-	5,917	-24,206
Provision for real property tax	-31,125	3,713	2,020	-	-	-36,858
Provision for the mine closure costs and land reclamation	47,428	-618	4,000	44,046	-	-
Mining damage	-1,035	-282	-	-	-	-753
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-22,658	-16,398	-6,260	-	-	-
Other	350	432	237	-	-	-319
Total	18,455	26,437	4,191	44,046	5,917	-62,136

[PLN '000]	Change of provisions in Q4 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	Amount disclosed in Other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	18,040	19,605	1,070	-	5,136	-7,771
Provision for real property tax	-8,944	-	238	-	-	-9,182
Provision for the mine closure costs and land reclamation	32,844	-1,842	1,281	33,405	-	-
Mining damage	-349	-282	-	-	-	-67
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-	-	-	-	-	-
Other	-118	28	15	-	-	-161
Total	41,473	17,509	2,604	33,405	5,136	-17,181



Costs in LW Bogdanka S.A.

Costs by type

[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Net production ['000 tonnes]	2,187	2,324	6.3%	9,007	9,451	4.9%
Sales ['000 tonnes]	2,155	2,298	6.6%	8,943	9,359	4.7%
Amortisation	98,144	98,427	0.3%	398,178	382,865	-3.8%
Materials and energy consumption	157,727	135,182	-14.3%	572,379	515,706	-9.9%
Outsourced services	135,604	130,679	-3.6%	495,394	522,308	5.4%
Employee benefits	197,648	231,522	17.1%	583,295	648,858	11.2%
Entertainment and advertising costs	1,811	1,576	-13.0%	8,808	8,003	-9.1%
Taxes, fees and charges	9,013	7,099	-21.2%	39,695	48,325	21.7%
Other costs	1,167	20,020	1,615.5%	17,268	22,281	29.0%
Total costs by type	601,114	624,505	3.9%	2,115,017	2,148,346	1.6%
Cost of own work	-92,071	-81,911	-11.0%	-300,594	-307,294	2.2%
Accruals and deferrals	-45,522	-75,615	66.1%	1,346	-9,031	-771.0%
Value of coal obtained from excavations	-25,535	-15,965	-37.5%	-113,225	-81,848	-27.7%
Provisions and other presentation adjustments between costs by type and by function	17,257	26,537	53.8%	17,326	49,268	184.4%
Total production cost	455,243	477,551	4.9%	1,719,870	1,799,441	4.6%
Change in products	-5,843	-4,889	-16.3%	-7,675	-15,330	99.7%
Costs of goods and materials sold	4,797	3,434	-28.4%	18,622	17,205	-7.6%
Own cost of sales, including:	454,197	476,096	4.8%	1,730,817	1,801,316	4.1%
Costs of products, goods and materials sold	415,681	433,614	4.3%	1,585,719	1,647,132	3.9%
Selling costs	11,275	9,702	-14.0%	44,010	37,988	-13.7%
Administrative expenses	27,241	32,780	20.3%	101,088	116,196	14.9%

Q4 2019

In Q4 2019, LW Bogdanka S.A. incurred costs by type in the amount of PLN 624,505,000 (PLN +23,391,000 y/y), i.e. by 3.9% higher than in Q4 2018. The increase in costs recorded in Q4 2019 was primarily influenced by higher value of employee benefits and other costs. This increase was to a certain degree compensated with lower costs of materials and energy consumption.

The value of depreciation and amortisation went up by 0.3% (to PLN 98,427,000) – the value of natural depreciation and amortisation increased (PLN +2.3 million), and depreciation of the right-to-use-asset (lease) was disclosed (approx. PLN +0.8 million) with the depreciation of non-current assets going down (PLN 2.9 million).

Total cost of materials and energy consumption went down by 14.3% compared to the fourth quarter of 2018, and totalled PLN 135,182,000. In the period under analysis the value of materials used dropped (PLN -24.7 million) with the costs of energy consumption going up (PLN +2.1 million).

The value of outsourced services in Q4 2019 went down from PLN 135,604,000 in Q4 2018 to PLN 130,679,000 (-3.6%). In the period under analysis, the Company recorded decreases in services related to drilling and redevelopment of excavations (PLN -6.1 million), other mining & drilling and excavation works on working days and on Sundays and holidays (PLN -1.2 million) and auxiliary works (PLN -1.5 million), with a concurrent growth in the costs of rail transport of coal (PLN +0.6 million), other work (PLN +1.6 million) and the service of stone removal for land reclamation (PLN +2.0 million).

In Q4 2019, compared to Q4 2018, the value of employee benefits increased by PLN 33,874,000. It was a result of an increase in remunerations (PLN +24.8 million) and employee benefits (PLN +9.8 million).

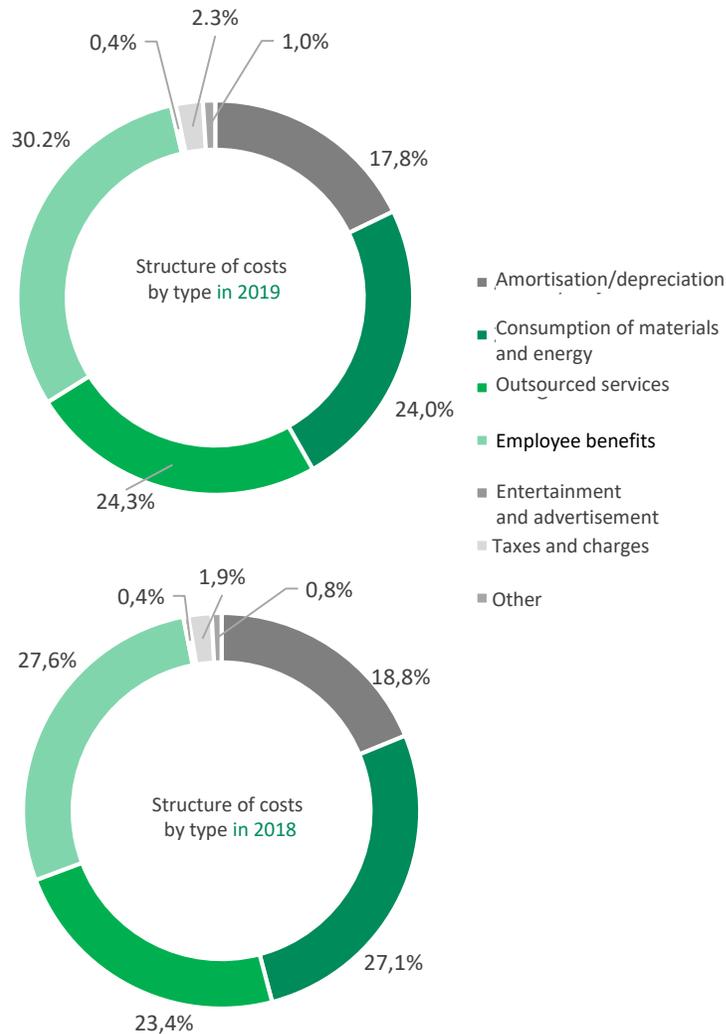
At the same time, average employment y/y in LW Bogdanka S.A. increased by 171 people.

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



Costs in LW Bogdanka S.A.

Costs by type



2019

In 2019, LW Bogdanka S.A. incurred costs in the amount of PLN 2,148,346,000, i.e. by 1.6% (PLN 33,329,000) higher than in the same period of 2018. The increase in costs recorded in the analysed period was largely influenced by the increase in employee benefits, taxes and charges and other costs. This increase was to a certain degree compensated with lower costs of materials and energy consumption.

The value of depreciation and amortisation went down by 3.8% (to PLN 382,865,000) – the value of depreciation of non-current assets and of natural depreciation went down. A drop in the natural depreciation is a consequence of a removal of longwall galleries of a lower initial value.

Total cost of materials and energy consumption went down by 9.9% compared to 2018 by 9.9%, and totalled PLN 515,706,000. In the period under analysis, the biggest drop was recorded in the value of parts to wall conveyors (PLN -24 million) and the value of parts to JOY conveyor (PLN -4 million).

Furthermore, in relation to a lower gross extraction the value of energy consumption went down (understood as a sum of electric and heat energy, water and waste water) by PLN 2 million.

Compared to 2018, the value of outsourced services in 2019 went up from PLN 495,394,000 to PLN 522,308,000 (+5.4%). In the period under analysis, the highest increases were recorded in the costs of:

- drilling and redevelopment of existing excavations (PLN +9.8 million),
- work on Saturdays and Sundays (PLN +10.6 million),
- auxiliary works on working days (PLN +1.9 million),
- transport services related to stone removal for land reclamation (PLN +1.8 million),
- Other services - reclamation (PLN +7.5 million),

In 2019, compared to 2018, the value of employee benefits increased by PLN 65,563,000. In the period under analysis increase was recorded primarily in salaries (PLN +48 million) and overheads (PLN +19 million) as a result of higher average employment and introducing the employee retirement plans (PPE) in mid-2019.

The value of taxes, fees and charges paid in the analysed period of 2019 went up to PLN 48,325,000 from PLN 39,695,000 in the same period of 2018 – increases were recorded in the real property tax in relation to liabilities settlements (recognition of excavations lining and equipment in the tax base); it should be noted that the settlement did not affect materially the profit/loss, as in majority it was made with a provision (PLN +6.9 million), service charge (PLN +1.2 million) as well as payments to the National Fund for the Disabled (PLN +0.9 million).

The value of other costs increased from PLN 17,268,000 (2018) to 22,281,000 (2019) – in December 2019 a new insurance policy was taken out with coverage of 18 months from the date of signing thereof (same as the previous policy), and therefore they are to be settled over time through accruals and deferrals.

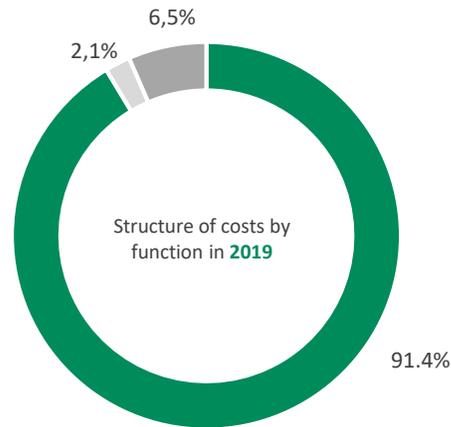
The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the four quarters of 2019 amounting to PLN 1,801,316,000. Comparing to the previous year, it is higher by 4.1%.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. 2019 saw a growth (compared to the previous year) in the share of costs of outsourced services (to 24.3%), employee benefits (to 30.2%), taxes and charges (to 2.3%) and other costs (to 1.0%). But the share of the depreciation and consumption of materials and energy decreased (17.8% and to 24%, respectively). In 2019, the consumption of materials and energy, outsourced services as well as employee benefits totalled 78.5% of costs, and the figure was comparable to that recorded in the same period of THE previous year (78.1%).

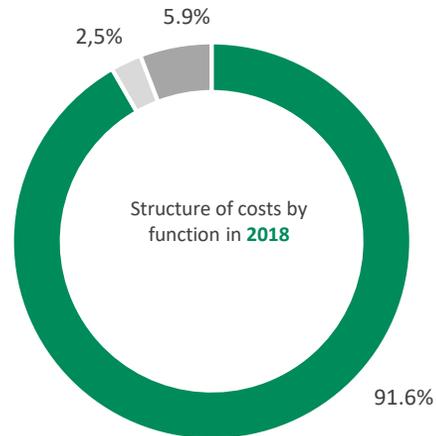


Costs in LW Bogdanka S.A.

Costs by function



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



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

Costs by function

The cost of own production sold (by function) in Q4 2019 amounted to PLN 476,096,000 while in the analogous period of the previous year, it was PLN 454,197,000.

Own cost of production sold (by function) in 2019 was PLN 1,801,316,000 and was higher by 4.1% (PLN 70,499,000) than the cost incurred in 2018.

[PLN '000]	Q4 2018	Q4 2019	Change	2018	2019	Change
Net production ['000 tonnes]	2,187	2,324	6.3%	9,007	9,451	4.9%
Sales ['000 tonnes]	2,155	2,298	6.6%	8,943	9,359	4.7%
Costs of products, goods and materials sold	415,681	433,614	4.3%	1,585,719	1,647,132	3.9%
Selling costs	11,275	9,702	-14.0%	44,010	37,988	-13.7%
Administrative expenses	27,241	32,780	20.3%	101,088	116,196	14.9%
Own cost of sales	454,197	476,096	4.8%	1,730,817	1,801,316	4.1%



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

Suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public

contracts. At the LW Bogdanka Group all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Group. The principal suppliers for the LW Bogdanka Group include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January and 31 December 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 December 2019 stood at PLN 516,738,000, of which:

- PLN 133,998,000 disclosed in non-current assets,
- PLN 382,740,000 is disclosed under current assets.

The amount of PLN 133,998,000 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 382,740,000 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 366,899,000, while the funds accumulated at subsidiaries amount to PLN 15,841,000 (primarily Łęczynska Energetyka).

Assessment of factors and untypical events affecting the operating profit

The only event that had a material impact on the Group's result in 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 19 of the consolidated financial statements of the LW Bogdanka Group for 2019.

Except for the above, in 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

In 2019 no material off-balance sheet items occurred.



4

Shares and shareholding



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

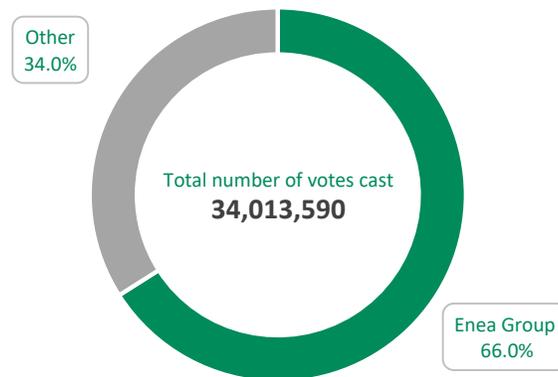
Changes in the shareholding structure by the date of the Report

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 Report for Q3 2019.

Shareholding structure

The graph below shows a shareholding structure of the Company as at 25 March 2020.

Shareholding of LW Bogdanka S.A. as at 25 March 2020*



*Enea S.A. holds 64.6% of votes, Enea S.A. jointly with its subsidiary, Enea Wytwarzanie, holds 66.0% of votes





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.:

MANAGEMENT BOARD					
Name and surname	The number of the Company shares as of 25 March 2020	Par value of the shares (PLN)	The number of the Company shares as of 20 November 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
SUPERVISORY BOARD					
Name and surname	The number of the Company shares as of 25 March 2020	Par value of the shares (PLN)	Number of the Company's shares as at 20 November 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	The number of the Company shares as of 25 March 2020	Par value of the shares (PLN)	The number of the Company shares as of 20 November 2019	Par value of the shares (PLN)	Number of shares in subsidiary companies
	253	1,265	253	1,265	0

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



Dividend policy of LW Bogdanka S.A.

Dividend policy

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

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

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

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

Dividend paid out of profit for 2017-2018

Item	Dividend payment year		
	2017	2018	2019
Net profit (separate) for the previous year [PLN million]	175.9	673.3	51.6
Total dividend [PLN million]	34	-	25.5
Dividend per share [PLN]	1	-	0.75
Earnings/loss per share [PLN]	5.2	19.8	1.5
Dividend payment rate	19.3%	-	49.4%
Dividend rate	1.5%	-	2.1%





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

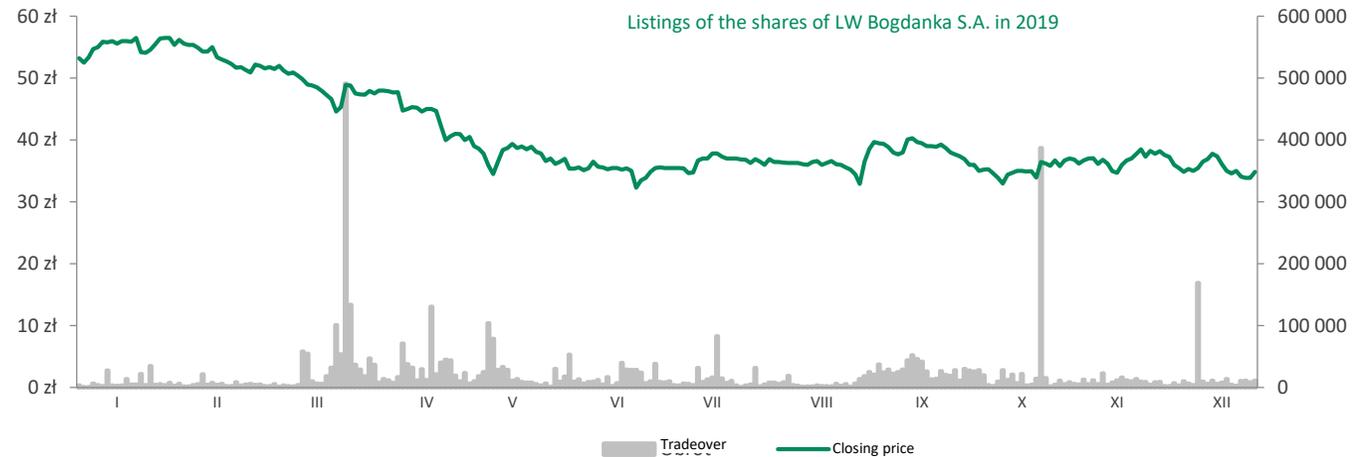
Participation of the LW Bogdanka's shares in indices

The Company was first listed on the Warsaw Stock exchange on 25 June 2009. During 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 Górniczo – includes companies classified into the "Mining" sector (former name of the sector was "Raw Materials").
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices.
- Investor MS - Investor MS Index is an external index calculated by the stock exchange on commission of Investors TFI S.A. The functionality of the index is to assess behaviour of share prices of companies with medium and small market cap, which make an investment area of the "Investor Top 25 Małych Spółek FIO" fund (open-end fund of top 25 small companies).
- Respect Index – index of socially responsible companies.

 WIG 40	 WIG Poland	 WIG-GORNIC	 RESPECT Index	 InvestorMS	 WIG
2.13%	0.21%	2.10%	0.43%	0.33%	0.20%

companies.



Key share indicators:

	2017	2018	2019
Maximum price [PLN]	83.8	70.7	56.5
Minimum price [PLN]	59.0	45.2	32.3
Last price [PLN]	67.0	51.3	34.9
Average price [PLN]	71.5	56.9	41.1
Capitalisation at end of period [PLN million]	2,278.9	1,744.9	1,185.4
Book value [PLN million]	2,884.6	2,931.0	3,207.4
Price/earnings ratio	3.8	33.8	3.9
Price/book value	0.9	0.6	0.4
Rate of return at end of period [%]	-3.8	-23.2	-33.0
Dividend rate [%]	1.5	-	2.1%
Average turnover per session [PLN '000]	1,362.6	720.9	817.7
Average volume per session	19,011	12,712	20,094
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590



Investor relations – how we do it

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

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

In 2019 we took the following steps as part of the investor relations activities:

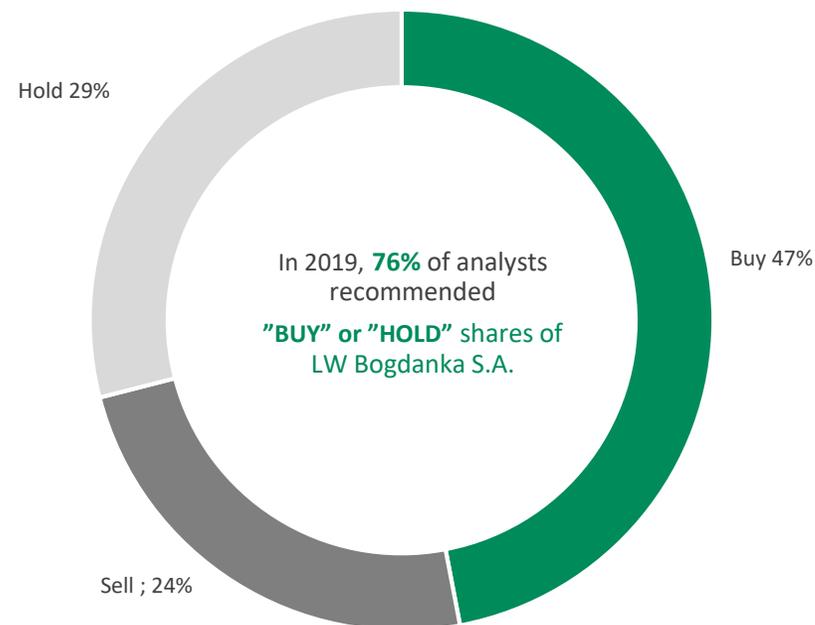
- we participated in numerous conferences and meetings addressed to institutional and individual investors
- we were at the disposal of investors from early morning to late in the evening – for phone calls, e-mails and face-to-face meetings
- every quarter, we met with the participants of the capital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





Analysts' recommendations*

Date 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
16 July	Ipopema	Buy	PLN 46.19	PLN 37.85
11 September	Santander	Buy	PLN 47.00	PLN 40.10
19 September	PKO BP Securities	Hold	PLN 41.00	PLN 38.90
4 October	Noble Securities	Sell	PLN 31.60	PLN 35.30
17 October	BOŚ DM	Buy	PLN 60.00	PLN 34.95
2 December	Santander	Hold	PLN 40.00	PLN 36.00
3 December	PEKAO IB	Buy	PLN 52.50	PLN 35.50



*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.



5

Governing bodies



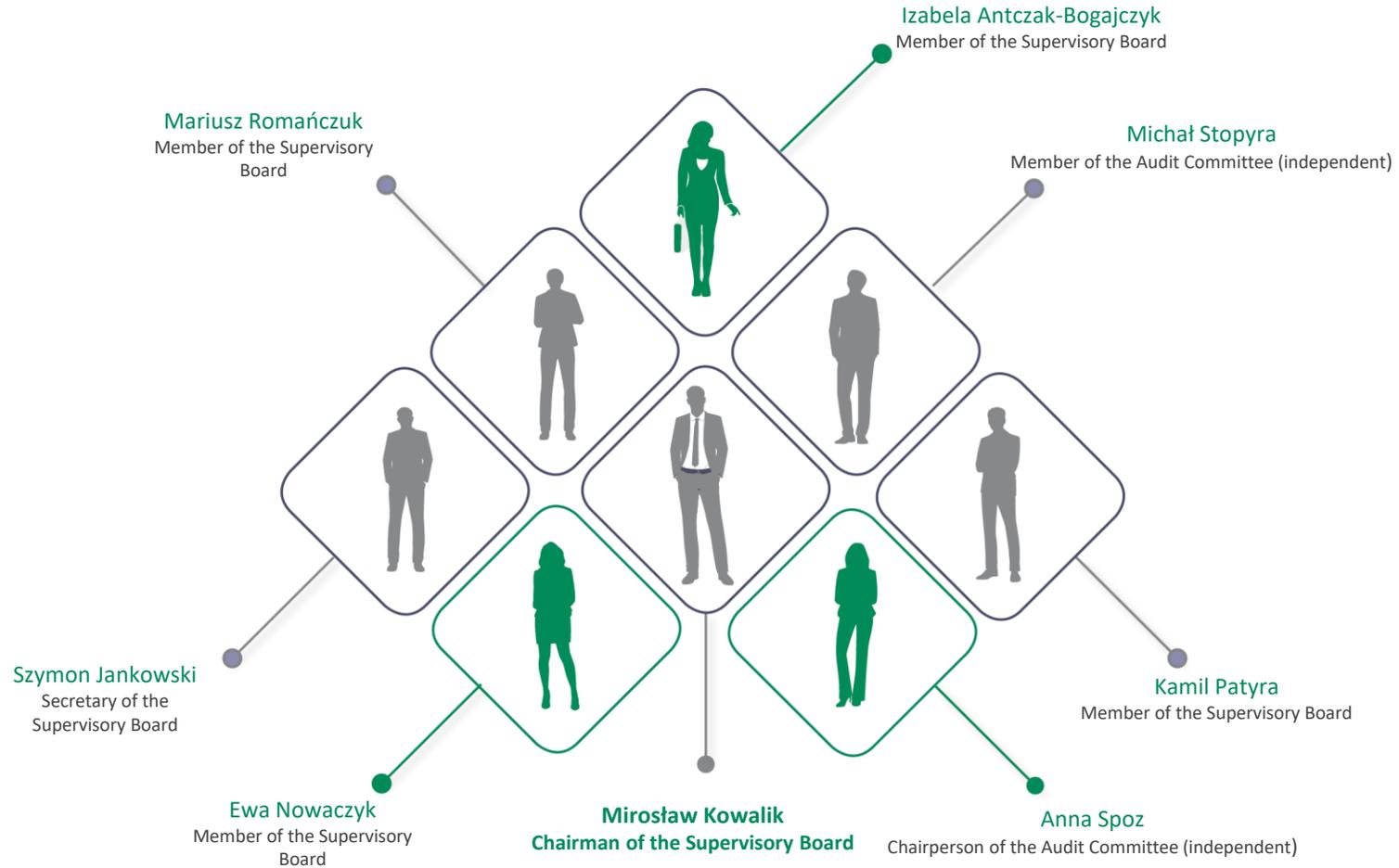
Composition of the Management Board of LW Bogdanka S.A. as at 25 March 2020

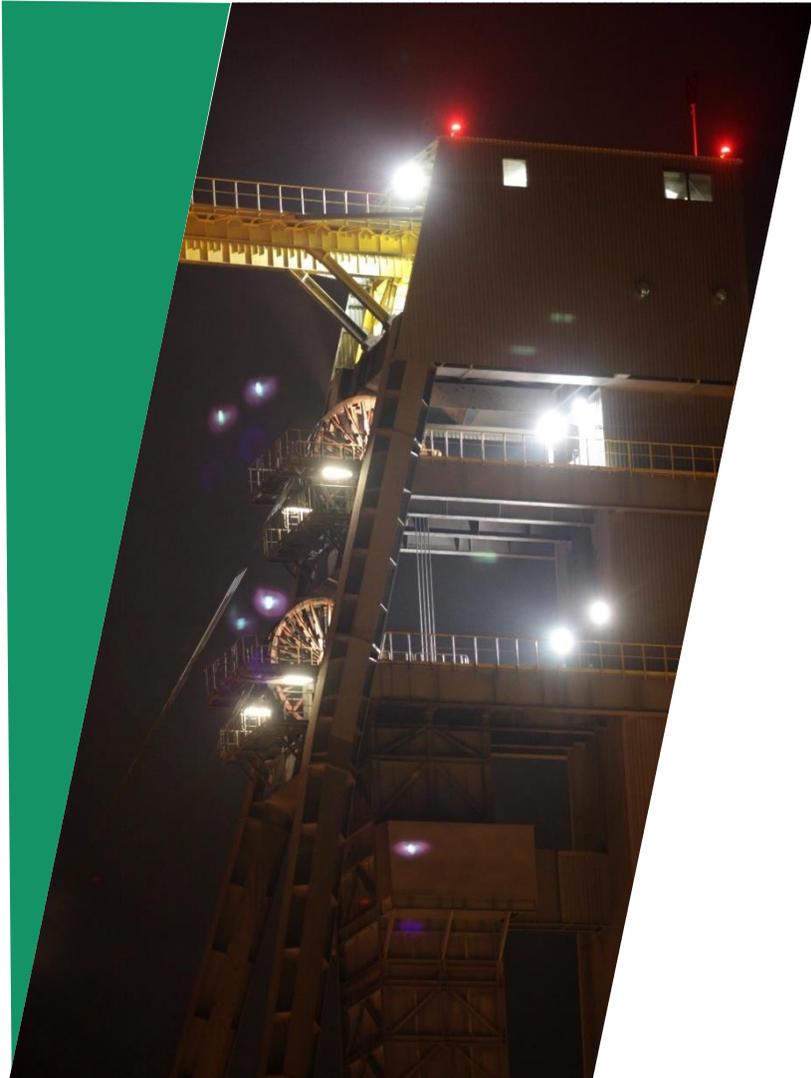
On 15 May 2019, the Company's Supervisory Board adopted resolutions on the appointment, as of 19 June 2019, of the Management Board to the new term of office in the following composition:

	<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 25 March 2020





Changes in the composition of the Company's Management Board

Date	Event
18 January 2019	Mr Marcin Kapkowski, Vice-President of the Management Board for Procurement and Investments, filed his resignation from his function as a Member of the Company's Management Board with effect from 31 January 2019.

Changes in the composition of the Supervisory Board

Date	Event
25 July 2019	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 25 March 2020

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 Uzdrowiskowy ENERGETYK sp. z o.o.

Kamil Patyra

Kamil Patyra graduated in Administration at the Faculty of Law and Administration of Maria Curie-Skłodowska University in Lublin. He joined LW Bogdanka S.A. in 2004 as underground machine and device repairer. In 2015 he was appointed as Company Social Labour Inspector. From 2018 he has held a position of Senior Underground OHS 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. In 2019 he completed the Executive Doctor of Business Administration programme at the Institute of Economics of the Polish Academy of Sciences.

He has worked for LW Bogdanka S.A. since 1989.

79 Currently, he holds the position of Manager of Blasting Team.

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.



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

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

Detailed information can be found in Chapter 6. Corporate Governance on pages 82-92.

Rules of remuneration of the Management Board Members

The rules of remuneration of the members of the Management Board of LW Bogdanka S.A. which applied in 2019 were introduced by virtue of the Resolutions of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 7 March 2017 and 17 October 2019, and of the Supervisory Board of the Company of 30 July 2018, as amended. All members of the Management Board entered into service agreements - management contracts, referred to in the Act on the rules for determining the remuneration of persons managing certain companies of 9 June 2016.

The management service agreements signed by the Company stipulate that:

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

to Agreement performance in a reliable manner.

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

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

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

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

The total annual remuneration of Members of the Management Board at LW Bogdanka S.A. as presented in the table below are composed of four parts: fixed remuneration, variable part of the remuneration (bonus paid out depending on the level of performance of the annual target), severance pay, non-competition compensation.

Name and surname	The term of office in the Management Board in 2019	Total remuneration [PLN]
Artur Wasil	1 January – 31 December	PLN 697,341.37
Adam Partyka	1 January – 31 December	PLN 777,295.89
Artur Wasilewski	1 January – 31 December	PLN 540,000.00
Dariusz Dumkiewicz	1 January – 31 December	PLN 504,000.00
Krzysztof Szlaga	-	PLN 260,000.00
Stanisław Misterek	-	PLN 274,266.30
Sławomir Karlikowski	-	PLN 330,726.58
Marcin Kapkowski	1 January – 31 January	PLN 415,750.00

In 2019, on the basis of resolutions taken with respect to the performance of Management Goals and determining the amount of Variable Remuneration for 2017 and 2018, the following amounts of the annual bonus were paid out:

Name and surname	Annual bonus
	2017
Krzysztof Szlaga	PLN 260,000.00
Stanisław Misterek	PLN 220,000.00
Sławomir Karlikowski	PLN 270,000.00
Adam Partyka	PLN 197,695.89
Marcin Kapkowski	PLN 250,000.00
	2018
Artur Wasil	PLN 73,341.37
Stanisław Misterek	PLN 54,266.30
Sławomir Karlikowski	PLN 60,726.58
Adam Partyka	PLN 75,600.00
Marcin Kapkowski	PLN 81,000.00

Non-competition compensation was paid to Mr Marcin Kapkowski in the amount of PLN 39,750.00.

Remuneration of individual Members of the Management Board paid in 2019

The total gross remuneration paid to the Members (present and former) of the Management Board in 2019 amounted to PLN 3,799,400. For fulfilling their duties in the Company, the Members of the Management Board received remuneration under a Service Agreement.

In 2019, Members of the Management Board of the Company did not receive remuneration for holding functions in the subsidiaries of LW Bogdanka S.A.

Gross remuneration paid to the Company's proxies in 2019 amounted to PLN 2,520,000. For fulfilling their duties for the Company, proxies received remuneration under an Employment Contract only.

Remuneration of individual members of the Company's Management Board paid in 2019 on account of employment contracts

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

Changes in the rules of remuneration after 31 December 2019

There were no changes in the rules of remuneration after 31 December 2019.



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

Rules of remuneration of the Company's Supervisory Board

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with the performance of their duties, and in particular the costs of travel to take part in Supervisory Board's meetings, board and accommodation, as well as costs incurred in connection with exercising individual supervision. The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership. The remuneration of members of the Supervisory Board was determined by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 as a product of the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year as announced by the President of the Central Statistics Office of Poland and the multiplier 1.0. Moreover, in relation to the Enea Group regulations, the representatives of the Enea Group in the Supervisory Board of the Company are not entitled to remuneration. By virtue of Resolution No. 30 of the Annual General Shareholders Meeting dated 26 June 2017, the multiplier referred to above was

changed to 1.2.

Further, in relation to Resolution No. 4 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. dated 17 October 2019, which amended Par. 1.1 in such a manner that it replaced the phrase: "average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year as announced by the President of the Central Statistics Office of Poland", with: "the calculation basis referred to in the Act on the rules for determining the remuneration of persons managing certain companies dated 9 June 2016, with due account taken of the applicable detailed provisions of law having impact on the amount thereof", the amount of remuneration for the members of the Supervisory Board changed. The change resulted from a modification of the basis used for calculating the remuneration, as in the new situation the Act on specific solutions serving the implementation of the budget act for 2019, dated 9 November 2018, also applies and indicates, in Par. 22, that a base for calculating should be an average monthly remuneration in the enterprises sector without payments from profit in the fourth quarter of 2016, rather than - as previously - in the fourth quarter of the previous year.

Amount of remuneration of individual members of the Supervisory Board paid out in 2019

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2019 amounted to PLN 497,500, including:

Name and surname	Remuneration
Kowalik Mirosław	PLN 0.00
Krasadomski Przemysław	PLN 41,420.50
Jankowski Szymon	PLN 71,036.51
Ewa Nowaczyk	PLN 71,036.51
Kamil Patyra	PLN 71,036.51
Mariusz Romańczuk	PLN 71,036.51
Anna Spoz	PLN 71,036.51
Michał Stopyra	PLN 71,036.51
Izabela Antczak-Bogajczyk	PLN 29,812.11

Other benefits and sources of remuneration

In 2019 Members of the Management Board and the Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the subsidiaries.

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





6

Corporate Governance



Corporate governance rules and rules departed from

In 2019, LW Bogdanka S.A. complied with the rules of the "Best Practice for WSE Listed Companies" (hereinafter the "Best Practice for WSE Listed Companies"), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warsaw of 13 October 2015. The Best Practice for WSE Listed Companies is available on the WSE website devoted to corporate governance - <https://www.gpw.pl/dobre-praktyki>

Corporate governance rules departed from

The intention of the Company's Management Board is to apply all corporate governance rules. However, due to the fact that some of the rules may cause excessive financial strain on the Company that would dominate the potential benefits arising from market needs, in 2019 the Company departed from the application of some of the corporate governance rules and recommendations as specified below.

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

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

Comment:

The above principle does not apply due to the specificity of the industry in which the Company operates. Although diversity policy principles have not been

implemented in the Company, in matters related to human resources the Company acts in accordance with the current needs of the enterprise, paying special attention to the expertise, education and professional experience of the candidates.

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

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

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

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

Comment:

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

As a result, the resolutions adopted could potentially be questioned. The Company does not exclude a possibility to provide the Shareholders with bilateral

real-time communication during the sessions of the General Shareholders Meeting in the future.





Diversity policy

The Company does not maintain any formal diversity policy for its administrative, management and supervisory bodies. The rules for appointing the Company's Management Board and Supervisory Board members are defined in the Articles of Association. While appointing its governing bodies, the Company lays great emphasis on ensuring versatility and diversity of education, age and professional experience of the candidates, but does not discriminate against anyone on the grounds of sex, age, origin or other factors which do not affect the assessment of the candidate's suitability for a given position. Appropriate background for the job is a factor which plays a decisive role. Irrespective of the above, the Company follows a diversity policy on candidate selection. LW Bogdanka's diversity policy is aimed at exploiting employee potential, using their skills, experience, talents and qualifications in the atmosphere of respect and support. Such an approach applies to all of the Company's employees, thereby improving the Company's operations and building its strong market position. We believe that with such a diversity policy in place the Company improves work efficiency, builds trust and prevents discrimination, thus creating the atmosphere of mutual respect.

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

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

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

or part-time employment.

A policy of equal employee development opportunities is a key element of the strategy pursued by the Company.

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

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

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

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

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

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

LW Bogdanka S.A. – Management Board as at the end of 2019

	2019
Total	4
Women	0
Men	4
Below 30 years	0
Between 31 and 40 years	0
Between 41 and 50 years	3
Over 50 years	1
Foreigners	0

LW Bogdanka S.A. – Supervisory Board as at the end of 2019

	2019
Total	8
Women	3
Men	5
Below 30 years	0
Between 31 and 40 years	2
Between 41 and 50 years	4
Over 50 years	2
Foreigners	0



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

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

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

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties. Control mechanisms aimed at achieving the following control objectives have been implemented in LW Bogdanka S.A.:

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

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

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

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

The accounting ledgers of LW Bogdanka S.A. are maintained using the FINANSE IT system, which forms part of the INTEGRA Integrated Management System.

The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed.

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

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

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

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

directly or indirectly affect the correctness of the financial statements.

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

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



Shareholders directly or indirectly holding substantial shareholdings at the Company

Shareholder	25 March 2020	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
The Enea Group*	22,448,834	66.0%
Other	11,564,756	34.0%
Total	34,013,590	100.0%

* according to a notification received on 30 October 2015, Enea S.A. holds 64.6% of votes, Enea S.A. jointly with its subsidiary, Enea Wytwarzanie, holds 66.0% of votes (for more information see Current Report No. 39/2015).

Shares and shareholding

A detailed description of the share capital structure, shareholding structure, changes in its structure in 2019 as well as possible changes in the structure is described in Chapter 4. Shares and shareholding

Owners of all the securities which entitle to special control rights

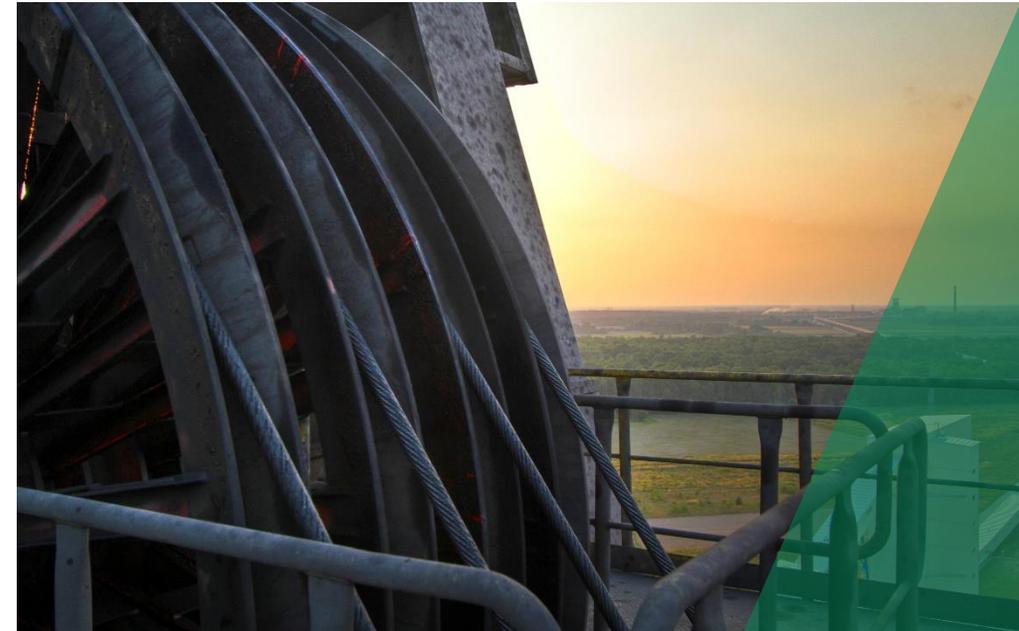
The Company has not issued any securities which would entitle shareholders to special control rights.

Restrictions on exercising the voting right

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

Restrictions on transferring ownership of the Company's securities

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



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

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

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

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



Governing Bodies in LW Bogdanka S.A. Management Board

Composition

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

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

As at the day of submitting the Report, the composition of the Management Board of the Company was presented in Chapter 5 - Governing Bodies of the Group, page 76.

Appointing and dismissing members of the Management Board

In accordance with Articles of Association, members of the Management Board or the entire Management Board are appointed and removed from office by the Supervisory Board. When appointing the Members of the Management Board, the Supervisory Board complies in particular with the rules set out in Article 17.2-17.3 and Article 19.4-19.5 of the Company's Articles of Association and the rules provided for in generally applicable laws.

Rules governing the appointment and dismissal of the President and Vice-Presidents of the Management Board of the Company are governed by the Articles of Association of LW Bogdanka S.A. Members of the Management Board are appointed for a joint term of office which lasts three subsequent years.

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

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

Description of operations and authorisations

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

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

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

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

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

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

- adoption of the Rules of Procedure of the Management Board;
- adoption of the Organisational Rules of the Company's enterprise;
- creation and liquidation of the Company branches;
- appointment of proxies and attorneys, with the exception of attorneys in litigation, with a proviso that a consent of all Management Board members is required in order to appoint a proxy;
- adoption of a material and financial plan,

- including an investment plan;
- the Company granting guarantees, suretyships and avals;
- issuing and accepting promissory notes with a net value exceeding PLN 200,000 (two hundred thousand zloty);
- carrying out other legal acts that result in assuming a liability or acquiring, disposing of, or encumbering non-current assets with a total net value of more than PLN 200,000 (two hundred thousand zloty);
- any matters which are submitted by the Management Board for consideration by the Supervisory Board, the General Shareholders Meeting, or the ENEA Group's Committees.

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

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

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

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

Information about Management Board meetings and the resolutions adopted

In 2019 the Management Board held 77 minuted meetings and adopted a total of 1,610 resolutions. The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules

of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Management Board's ordinary management and at the request of individual Management Board members.

Information on powers of proxy granted and revoked

In 2019 the Company's Management Board revoked powers of proxy granted to Cezary Wójcik and Krzysztof Kwiatkowski, and granted powers of proxy to Adam Wasil, Krzysztof Bogusz and Sławomir Karlikowski.

Dividend policy

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

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

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

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



Governing Bodies in LW Bogdanka S.A. Management Board

Tasks and obligations of the members of the Management Board in 2019

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

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

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

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

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

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

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

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

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

Vice-President of the Management Board, Development

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

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

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

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

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



Governing Bodies in LW Bogdanka S.A. Supervisory Board

Appointment and removal from office of the Supervisory Board members

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

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

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

Composition

The Supervisory Board of LW Bogdanka S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board of the Parent are appointed and removed by the General Shareholders Meeting. As at the day of submitting the Report, the composition of the Supervisory Board of the Company was presented in Chapter 5 - Governing Bodies of the Group, page 79.

Description of activities

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

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

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

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

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

- c) a contract for legal services, marketing services, public relations and social communication services, and management consulting services which does not stipulate the maximum remuneration
- d) a donation agreement or other agreement with a similar effect the value of which exceeds PLN 20,000, or 0.1% of total assets, within the meaning of the Accounting Act of 29 September 1994, established on the basis of the last approved financial report
- e) a debt release agreement or other agreement with a similar effect the value of which exceeds PLN 50,000, or 0.1% of total assets, within the meaning of the Accounting Act of 29 September 1994, established on the basis of the last approved financial report
- providing opinions on reports, presented by the Management Board to the General Shareholders Meeting, on hospitality expenditure, legal services expenditure, marketing services expenditure, expenditure on public relations and social communication services as well as management consulting services, as well as reports on the application of best practice, as referred to in Article 7.3 of the Act on State Property Management Rules of 16 December 2016 along with the Directors' Report on Operations of the Company for the previous financial year.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, shall be defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board. The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). The Board may appoint standing and temporary committees from among its members. The Audit Committee is the standing committee at the Supervisory Board.



Governing Bodies in LW Bogdanka S.A. the Audit Committee

Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2019.

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

In 2019, the Audit Committee operated in the following composition:

Composition of the Audit Committee from 15 January 2018

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

Composition of the Audit Committee from 28 August 2019

Anna Spoz ^{1) 2)}	Chairman
Izabela Antczak Bogajczyk	Member
Michał Stopyra ^{1) 3)}	Member

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

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

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

The manner of acquiring knowledge and skills referred to in item 3) is discussed in Chapter 5. Composition of the Company's Supervisory Board as at 25 March 2020

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

Committee at any time filing a resignation to the Committee Chairman. In the case of the Committee Chairman he shall file his resignation to the Chairman of the Supervisory Board. When the Committee Chairman is the Chairman of the Supervisory Board then the Committee Chairman shall file the resignation to the Vice-Chairman of the Supervisory Board.

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

Committee meetings shall be convened by the Chairman or, in his/her absence, a Board member nominated by him/her. The first Committee meeting shall be convened by the Chairman of the Supervisory Board or a Board member nominated by him. Notifications of committee meetings shall be subject to the provisions on notifications of Board meetings. Committee meetings shall be held as necessary, and one meeting shall be held before the Company publishes its financial statements.

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

The resolutions of the Committee shall be adopted in the same manner as the resolutions of the Supervisory Board. The Committee shall provide the Supervisory Board with information about its meetings.

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

The terms and conditions of the Rules shall apply as appropriate to any matters not covered by the regulations relating to the Supervisory Board committees. The Audit Committee held 11 meetings in 2019 and adopted 8 resolutions.

Information on appointing a chartered auditor

In order to review the financial statements of the Company and the consolidated financial statements of the Group for the first halves of 2018, 2019 and 2020 and to audit the financial statements of the Company and the consolidated financial statements of the Group for 2018, 2019 and 2020 as well as to prepare written opinions and reports on whether the financial statements are correct and present in a reliable and clear manner the financial standing and financial results of the Company and the Group.

Having conducted a tender, the Supervisory Board, following a recommendation of the Audit Committee, by virtue of Resolution No. 46/X/2018 of 5 January 2018, appointed PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp.k.) with registered office in Warsaw (hereinafter: PwC).

PwC since 16 February 1995, has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors. Except for auditing the annual financial statements of the Company and the consolidated financial statements of the Group, as well as reviewing interim financial statements, PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyty sp.k., in 2019 performed:

- other attestation services (audit and review of a group package for the purposes of ENEA),
- review of the correctness of calculations regarding the excise tax indicator for 2018.

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

Key assumptions of the Audit Firm selection policy

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

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

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

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



General Shareholders Meeting

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

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

Convening a General Shareholders Meeting

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

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

Shareholders rights

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code.

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with

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

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

Right to participate in the General Shareholders Meeting

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

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

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

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

Right to participate in the General Shareholders Meeting through a proxy

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

Adopting resolutions by the General Shareholders Meeting

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

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

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

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

of Supervisory Board members and Management Board members;

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

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

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

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



General Shareholders Meeting

Information of General Shareholders Meetings of LW Bogdanka S.A. held in 2019

In 2019 one Annual and three Extraordinary General Shareholders Meetings of the Company were held:

Annual General Shareholders Meeting of 18 June 2019, which was held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 18 June 2019:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging that the General Shareholders Meeting has been validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Recognising Directors' Report on Operations of LW Bogdanka S.A. and of the LW Bogdanka Group for 2018, containing the statement on non-financial information.
- Recognising the Financial Statements of Lubelski Węgiel Bogdanka S.A for 2018.
- Recognising the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2018.
- Presentation of the Management Board's motion regarding the distribution of net profit for 2018.
- Presentation of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the financial year 2018.
- Presentation of the report on hospitality expenditure, marketing services expenditure, expenditure on public relations and social communication services as well as management consulting and legal services for 2018.
- Adopting resolutions on:
 - Approval of Directors' Report on Operations of LW Bogdanka S.A. and of the LW

Bogdanka Group for 2018, containing the statement on non-financial information.

- approval of the Financial Statements of Lubelski Węgiel Bogdanka S.A for 2018,
- approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2018,
- granting discharge to the members of the Management Board of Lubelski Węgiel Bogdanka S.A. in respect of performance of their duties in 2018,
- approval of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the financial year 2018,
- granting discharge to the members of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. in respect of the performance of their duties in 2018,
- distribution of net profit for the financial year 2018,
- setting a dividend date and a dividend payment date.
- Miscellaneous.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 25 July 2019, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 25 July 2019:

- Opening the General Shareholders Meeting.
- Electing the Chairman of the General Shareholders Meeting.
- Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting resolutions on changes in the composition of the Supervisory Board.
- Closing the General Shareholders Meeting.

Extraordinary General Shareholders Meeting as at 17 October 2019 – held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 17 October 2019:

- Opening of the Extraordinary General Shareholders Meeting.
- Electing the Chairman of the Extraordinary General Shareholders Meeting.
- Acknowledging the Extraordinary General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
- Adopting the agenda.
- Adopting a resolution amending the resolution on the rules for determining the remuneration of Management Board members.
- Adopting a resolution amending the resolution on the rules for determining the remuneration of Supervisory Board members.
- Closing of the Extraordinary General Shareholders Meeting.

Extraordinary General Shareholders Meeting of 13 December 2019, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 13 December 2019:

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

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





7

Statement on Non-Financial Information



The Company and its business model

Below is the 2019 LW Bogdanka S.A.'s and the LW Bogdanka Group's Statement on Non-Financial Information for 2019 ("Statement") which is a separate part of the Directors' Report on Operations of LW Bogdanka S.A. and the LW Bogdanka Group for 2019 (prepared as one document), covering non-financial information for the period from 1 January 2019 to 31 December 2019. The Statement was drawn up based on our own rules with account taken of the provisions of the Accounting Act of 29 September 1994, the European Commission guidelines on non-financial reporting, Polish non-financial information standards (SIN), and the GRI Standards.

General information

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

The Group and its business model

LW Bogdanka S.A., one of the leading hard coal producers in Poland, is the Parent of the LW Bogdanka Group. The Parent is also a leader of innovation and efficiency in the national mining sector. Given that 99.3% of the consolidated revenue of the LW Bogdanka Group is generated by the Parent, while the subsidiaries mainly serve a supportive function in relation to the Parent's basic activities, the business model of the entire Group is determined by the business model of the Parent. Hard thermal coal extracted by LW Bogdanka S.A. is mostly used to produce electricity, heat and cement. LW Bogdanka S.A. is the only hard coal mine in Poland located outside the Upper Silesia region and the only mine extracting coal in the territory of the Lublin Coal Basin.

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

The main source of the Group's revenue is the production and sale of thermal coal. In 2019 the majority of the coal sales (95%) were to several key customers:

- Enea Wytwarzanie sp. z o.o. (Enea Group)
- Enea Połaniec (Enea Group)

- Azoty Group - Zakłady Azotowe Puławy S.A.
- ENERGA Elektrownie Ostrołęka S.A.
- PGNiG Termika S.A.

The majority of the Group's sales (about 85%) are performed within the Enea Group, of which the LW Bogdanka Group is a member. In addition to LW Bogdanka S.A. ("LWB"), the LW Bogdanka Group comprises Łęczyńska Energetyka sp. z o.o. ("ŁE") and three subsidiaries established in 2013-2014.

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

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

EkoTRANS Bogdanka sp. z o.o. ("EkoTrans"), established in 2013, provides waste management services to utilise waste generated in the course of coal shale washing and purifying, and more specifically waste transportation, logistics and reclamation services.

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

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

As an entity that mostly deals in coal extraction and sales, the LW Bogdanka Group is placed at the very beginning of the sector's economic path. LW Bogdanka Group's membership in the Enea Group provides opportunities to take advantage of various synergies (e.g. in 2015 LW Bogdanka S.A. signed

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



Employee matters

Personnel Policy

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

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

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

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

and in the corresponding documents adopted by the subsidiaries.

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

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

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

Every recruitment process at the LW Bogdanka Group takes place with due regard for the rules of equality regardless of sex, origin, age, beliefs and other factors related to diversity of the employees. Underground and surface employees make up 72.2% and 27.8% of the head count, respectively. Due to the nature of its business and the relevant legal requirements, the Group mainly employs men. The LW Bogdanka Group does not introduce any restrictions on equality in employment, and its current structure results from employees' individual preferences as to the choice of their career.

As at 31 Dec. 2019 (by persons)

LW BOGDANKA S.A.	employment contract	civil law agreement
Women	275	6
Men	4,649	48
Total	4,924	54

As at 31 Dec. 2019 (by persons)

LW BOGDANKA GROUP	employment contract	civil law agreement
Women	295	6
Men	5,449	56
Total	5,744	62

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





Employee matters

Generation Change Programme

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

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

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

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

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

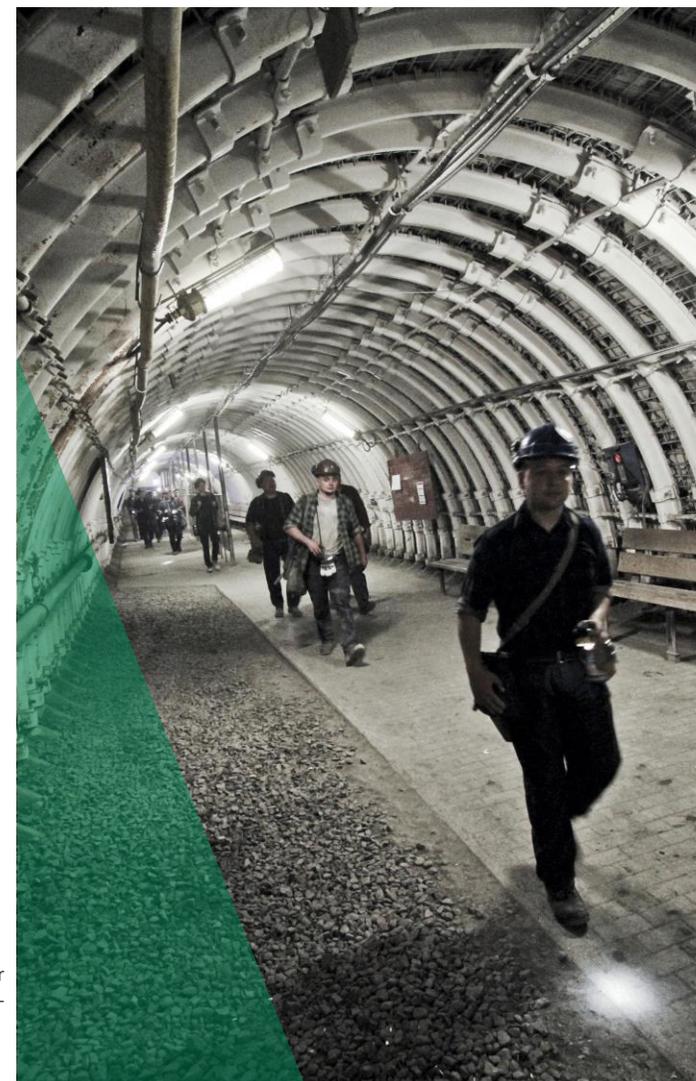
theme meetings, and by undertaking other initiatives, for example by taking part in job fairs organised by the University of Science and Technology in Krakow. In 2019 the Group organised internships for 157 high school and university students. Furthermore, 43 professional internships were organised.

LW BOGDANKA S.A.	Employed in 2019*	Left 2019*	Employed in 2018	Left 2018
Women	28	15	20	7
Men	270	120	413	141
Employees, breakdown by:				
•employees under 30	134	22	250	25
•employees between 30 and 50	154	46	173	61
•employees above 50	10	67	10	62
Total	298	135	433	148

LW BOGDANKA GROUP	Employed in 2019*	Left 2019*	Employed in 2018*	Left 2018*
Women	31	19	22	10
Men	863	550	807	849
Employees, breakdown by:				
•employees under 30	462	260	510	370
•employees between 30 and 50	408	226	298	397
•employees above 50	24	83	21	92
Total	894	569	829	859

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

* in 2019, 129 people (men) transferred from MR Bogdanka to RG Bogdanka (under Article 23' of the Labour Code); the change did not affect the size of headcount in the LW Bogdanka Group, but resulted in changing the employment structure within the Group





Employee matters

Procedure of increasing qualifications, training and development of human resources

All employees have equal access to training and opportunities to improve their qualifications. In 2019 internal and external training sessions were organised at the Group. Employees take part, out of their own initiative and upon consent of their superior, in external training and conferences.

LW Bogdanka Group

Total number of training hours in 2019	Total number of training hours in 2018
95,239	116,642

LW Bogdanka S.A.

Total number of training hours in 2019	Total number of training hours in 2018
75,069	93,700

Average number of optional training hours of employees working under employment contracts

	LWB	RGB	MRB	ŁE	Eko Trans
Women	8.1	-	2.7	12.3	-
Men	7.0	-	15.1	3.5	-

Additional non-salary benefits

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

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

LW Bogdanka 2018

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

LW Bogdanka 2019

Funds for the Company Social Benefits Fund [PLN '000]	Funds used	Performed [%]
19,941.3	15,263.9	76.5%





Employee matters

Management of Occupational Health and Safety (OHS)

LW Bogdanka S.A. is one of the safest mines in Poland. This has been achieved thanks to advanced, often very innovative, technological and organisational solutions and well-prepared personnel. Irrespective of the above, appropriate procedures and processes need to be constantly developed and implemented to limit the risks and the effects of potentially unforeseeable events. Due to the fact that LW Bogdanka's subsidiaries use the infrastructure of the Parent, any occupational health and safety (OHS) procedures introduced by LW Bogdanka S.A. also apply to the subsidiaries. Any issues related to OHS management are part of the Integrated Health and Safety, Quality and Environment Management System at LW Bogdanka S.A. Procedures for OHS management comply with OHSAS 18001 and PN-N 18001. The issues were also considered in the integrated corporate security management system. The present management systems are continuously improved. The Group is continuously looking for more effective solutions by analysing accidents and accident-related events.

Moreover, a general safety management system has also been implemented at the mine.

The Group strictly complies with provisions regarding OHS and undertakes preventive measures which include on-going monitoring of work conditions and gradual inspection of jobs and workplaces.

An obligation imposed in the mine to test the safety of materials and non-current assets in production conditions before the purchase and implementation is also of great importance for everyday safety of the employees. The Group does not merely rely on declarations of manufacturers and vendors, but carries out its own assessments and tests. Employees are engaged to tests and assessments of personal protective equipment and work apparel.

Opinions of staff members have an important influence on decisions as to which equipment should be purchased.

Redefining of individual processes, including automatisisation and mechanisation, contributes to permanently eliminating accidents or limiting the accident rate. A good example may be the use of machines in the process of disassembling longwall headings and removing casings, and securing roof of a coal deposit in wall niches. The use by the LW Bogdanka Group of modern underground machinery and equipment, in addition to increasing the efficiency, means eliminating human presence in the most dangerous places. It is also very important to use sprinkler systems which eliminate not only the coal dust explosion hazard, but also limit air dustiness in the mine's excavations.

In 2019 the following actions were conducted at the Parent with a view to improving the safety of work:

- increasing the number of work station inspections, conducted by the employees of the OHS Department, in the LW Bogdanka Group and entities conducting business operations in the mining facility
- conducting a social review of work conditions
- organisation of a Safety Week, including additional health examinations
- issuing a "Fist Aid" leaflet for all employees
- competition on occupational health and safety for employees and mining schools students
- Introduction of an information line for the staff regarding accidents at work
- conducting a social review of work conditions

All the above activities were implemented within the reporting period.



LW Bogdanka S.A. 2019 LW Bogdanka Group 2019

Number of fatal accidents – total staff	0	0
Number of fatal accidents – subcontractors	0	0
Number of accidents that result in a loss of working time – total staff	28	28
Number of all reported accidents – total staff	93	108
Number of all reported accidents – subcontractors	116	116



Employee matters

Employee-related risks

Generation gap risk

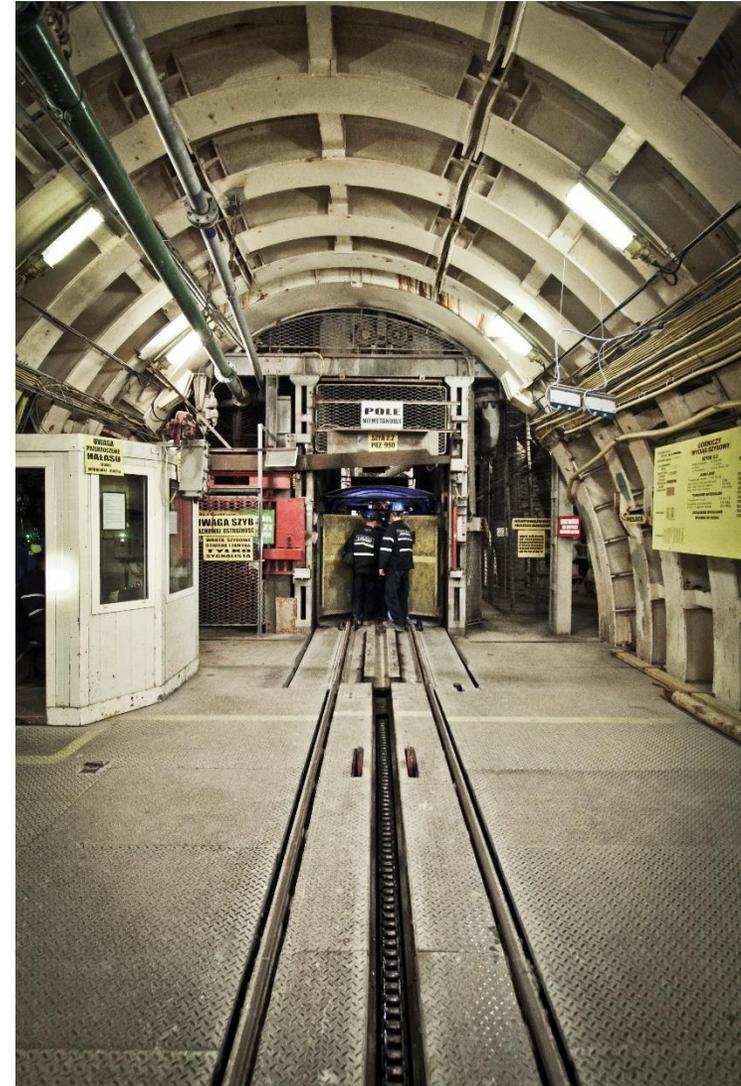
Due to ongoing works on amendments to the Collective Bargaining Agreement which will consider the change of work organisation and remuneration, there is a risk that a larger number of experienced employees entitled to retirement benefits will leave the Group. They are valuable because of their knowledge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



Risk of key employee loss

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

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





Social matters

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

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.



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.

The Company maintains a quality management system compliant with the requirements of the relevant reference standards, which has been confirmed by audits carried out in the organisation, including the most recent audit carried out by PRS Certyfikacja S.A. in May 2018.

Several (facultative) OHS solutions were implemented or kept in place in order to improve employee safety at the Company. The most important solutions include: placement of telecardiographs for independent heart rate monitoring across the mine, ensuring availability of a defibrillator and "Kazik" machines for collection of personal protective equipment (PPE), 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. 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. Participation in the programme is the simplest way

to share one's ideas based on the experience gained while working in the mine. Active participation in the project allows the overarching goal of improving work to be achieved, thus ensuring the highest level of safety for the staff.



Safety Week 2019 – the initiative of established position in LW Bogdanka's calendar, focusing on the subjects of occupational safety and safety outside work. This year such events as presentations of equipment, personal protection means, consultations with manufactures of that equipment as well as shows and simulations of accidents took place. Furthermore, health supporting activities were added to the programme in the form of stands where basic prophylactic examinations could be done. Approximately 200 people participated in the programme. The programme is based on the concept that care for employees health is an investment in raising the staff's efficiency and loyalty.

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 the second half of 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.





Social matters

Engagement in social life

In the second half of 2019 the Company started cooperation with the Landscapes Foundation with a view to performing environmental, educational and social involvement activities.

The objective of the first project, "Beautiful Łęczna", was to create a unique plan for Łęczna, with due consideration for sustainable development in the management of the towns' greenery, and with an account taken of the opinions of dwellers, experts, and the representatives of the local self-government. It was pursued based on social research and educational workshops carried out by scientists from the Catholic University of Lublin. The works brought effect in the form of a Report the assumptions of which will be included in performance plans for the coming years.



The objective of the second project, "Big trees for the Łęczna poviat" is to educate people on planting, the role in the ecosystem, and care of big mature trees in urban space; the project was finalised by a show of planting two big trees. It was addressed to students of 15 local primary schools – through a "Friendly space – let's plant a big tree by our school" competition and public administration bodies, local architects, landscape architects and persons responsible for maintaining urban greenery. One tree was planted in some public space in Łęczna, and one - by the winning school in Dratów. Information materials for teachers were also developed, presenting a scenario of lessons of various subjects

regarding the role of trees in the environment.

Charity support

From the very beginning of its existence, the LW Bogdanka Group has been supporting its immediate surroundings and the local community, inter alia, by subsidising a range of local social initiatives, aimed at the development of the cultural, scientific, educational and health realm, construction of communal infrastructure, and answering other needs of the local community.

The Group also sponsors sporting and cultural activity. In 2019, the Parent gave donations and in-kind contributions for a total amount of PLN 637,700 towards the Lubartów Hospice, Children Friends Society or those in care of Caritas.



Inter-Sector Cooperation for Life and Health

In 2019 the trilateral agreement is dedicated to the promotion of voluntary blood donation, blood transfusion and registration with the bone marrow donor bank. The goal of the agreement is to conduct an education and volunteer program consisting in the Company's staff and the local community becoming involved in blood and bone marrow donation campaigns. In 2019, blood and bone marrow donation actions organised in the mine were accompanied by the organisation, supported by the Company, of the 70th anniversary of voluntary blood donation in the Lublin region; during the celebrations the Company was given a medal.

Cooperation with mining schools

The Company has signed cooperation agreements related to vocational learning with four schools, as well as an agreement for vocational placement for students. Furthermore, it has signed internship agreements with vocational schools in relation to the "Become a Professional - School Today, Success Tomorrow" project, co-financed with the RPO WL (EU) funds.

In 2019, the Company has also signed a letter of intent regarding cooperation with another school with respect to rewarding students of mining profile classes for their results in technical subjects [Stanisław Staszic Energy and Transportation School Complex in Chełm], and a letter of intent with the school regarding cooperation in the "Permit to work at LW Bogdanka S.A. – We need the best!" project. In 2017, a letter of intent was signed with the AGH University of Science and Technology, based on which Bogdanka each year employs AGH graduates. In 2019 two graduates were employed in this scheme.

In 2019, as part of cooperation with three partner schools, the Company financed the total of 60 scholarships (and since 2017 in total 114), and in 2019, in the framework of the project "Permit to work", 11 mining schools graduates were employed (since the beginning of the project - 53 graduates). Since 2017, the cooperation has covered Mining Schools in Łęczna and Schools in Ostrów Lubelski (scholarships and a permit), and since 2019 - also Stanisław Staszic Energy and Transportation School Complex in Chełm (scholarships and a permit).



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.



Bogdanka Socially Committed – in August 2019 the Company launched a programme under which LW Bogdanka's employees may bring initiatives and inform the Company of social organisations which are important for local community and, at the same time, address the needs of groups of external stakeholders of the Company. An employee may once a year receive up to PLN 3,500 to implement his or her initiative – the ideas are subject to assessment by a Team appointed by the Vice-President of the Management Board responsible for Employee and Social Affairs.

Until the end of the year, out of almost 50 submitted initiatives, 30 were performed in 25 locations. The programme's budget for 2019 was PLN 70,000.





Social matters

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.



74 % of the help granted is related to the health of the employees and their families – treatment, rehabilitation and purchases of medical equipment. The Foundation to an increasingly larger extent provides assistance to mining retirees and pensioners. In majority of cases social aid refers to families of miners who survived serious accidents or died in accidents, as well as mining retirees. The financing provided to education and health care

is related mainly to assistance for institutions, associations and other organisations of significant social meaning in the region (Educational Care Facility in Kijany, "Hidden Treasure" Society, Society for Equal Chances, Children Friends Association, Psychological and Pedagogical Counselling Centre, Poviast Centre for Family Help, Regional Centre for Sobriety "Maksymilian", SITG and mining schools).

In 2019, the costs of activities set forth in its by-laws amounted to almost PLN 428,800 (in 2018 - PLN 370,000), which included:

- medical treatment and rehabilitation – 66%
- purchase of medical equipment – 10%
- social aid – 9%
- financing with respect to education and health care – 8%
- other financing – 7%.

Ethics as component of the organisational culture

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

The Code of Ethics established in 2011 is updated to ensure that it reflects the most recent situation in the Company and in the industry as a whole. The documents which have been in effect since 2015 are: "Supplier Code of Conduct of LW Bogdanka S.A."; "Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics"; information regarding "Compliance with the Rules of Ethics at Interviews with Injured Parties and Witnesses for the Purposes

of Developing Accident Reports".

In November 2018 Code of Ethics was introduced in the LW Bogdanka Group, and it applies to all subsidiaries. Education and awareness campaign is conducted on an ongoing basis with the use of such tools as plasma screens, the "Bogdanka" corporate newspaper and the Intranet, with a view to exposing and promoting ethical values recognised in LW Bogdanka S.A. In 2019, as part of the staff induction training and as part of the occupational health and safety training for team leaders, the Ethics Representative provided training in the Code of Ethics to 207 employees of the Company, including 100% newcomers.

The Ethics Representative will also be involved in the actions carried out in the Compliance field. The Compliance system and procedures are now being implemented at the Company. As part of the Compliance policy internal policies will be implemented and monitored.



Trade Unions

Six trade union organisations operate at the Group, out of which four at the Parent.

As at 31 December 2019, the size of the individual trade unions (at the Parent) was as follows:

- "Solidarność" Independent Self-Governing Trade

Union – 1,015 members

- Trade Union of Miners in Poland – 1,575 members
- "Kadra" Trade Union – 321 members
- "Przeróbka" Trade Union – 342 members.

In total, 3,253 employees were members of trade union organisations, which constitutes 65.3% of the total head count at the Company.

Cooperation of the LW Bogdanka Group with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

Social dialogue

As part of the monitoring of the CSR Strategy, we review the key groups of stakeholders and the current and desired forms of dialogue with them. In the case of these key groups, the communication is very regular, direct and often at the highest level, which enables consultation of relevant matters on a regular basis.

Furthermore, in 2019 over 30 dialogue sessions with the trade unions were organised to negotiate such issues as payroll or employee retirements plans/employee equity plans (PPE/PPK); 33 meetings of the Social Benefits Commission composed of representatives of the employer and the trade unions, and 2 scheduled meetings of the Conciliation Team for Periodic Assessment of the Impact of Mining on the Surface in the Communes of Cycliców, Ludwin and Puchaczów, with the participation of the Director of the Regional Mining Office in Lublin, who chairs the Team.





Social matters

CSR initiatives carried out in 2019

Health Zone, Ecology Zone and Safety Zone in the employee feasts – each event organised by the Company has educational components and promotes correct behaviour, prevention and safe conduct at work or on the road.



Cooperation with the Occupational Therapy Workshop in Janowica, whose participants regularly display their artistic creation at the mine and during the Christmas season organise handicraft fair. The Company also supports the action “Kilometres of Good” for the Occupational Therapy Workshop.



Prevention for the employees and stakeholders of the Group – Health Days at LW Bogdanka, including an array of test and preventive actions which were available at the workplace, USG, spirometry, ABI test and other.



The literary contest “It doesn't matter if you're brave when you don't bother to be safe” is an initiative to engage employees' children in the issue of work safety. The young participants activated their parents to keep the highest level of safety and exercise care in the health and OHS areas through their epigrams and poems.



Each year the LW Bogdanka Group gets involved in initiatives that increase the knowledge and improve skills related to first aid. An example of such an initiative is the “Young Rescuers” contest, organised every year at the Jan and Kazimierz Bogdanowicz School Complex in Nadrybie for students of schools in the Poviatic.



Safety Week – annual initiative focusing on the subjects of occupational safety, gathering a dozen of exhibitors, lectures, presentations, and an OHS competition.



C-Zone Education – there is a dedicated educational zone at the mine, where the Company's employees provide the stakeholders (mainly children and youth) with the information about the traditions, customs and the characteristics of work at the mine. In 2019 almost 600 people visited the C-Zone.



Partnership with the Educational Care Facility in Kijany – while pursuing the CSR-related social goals, the Company pays particular attention to groups threatened with social exclusion, in order to support young people in development and motivate them to take responsible decisions both for education and life.





Social matters

Employee's involvement in social initiatives

Charity fundraising on Bogdanka's premises – in 2019, there were several charity events organised to support the people in need. Above all, support was provided for actions initiated by the employees. This was done by means of donations, in-kind contributions and organisational support.



Positive Twist – a permanent campaign involving collection of screw-on bottle caps for the children and youth from the Little Prince Hospice in Lublin. In 12 months we collected several hundred kilograms of plastic caps. The action has become a permanent and popular event organised at Bogdanka. It makes everyone realise that simple habits, such as collecting plastic caps, can help achieve great charitable purposes.



Gold Rush – the project involves "getting rid" of small coins (1, 2, and 5 grosz) sitting in the wallet. Participation in the project is the initiative of the mine's Z. Gola Honorary Blood Donors Club of the Polish Red Cross.



AGH students get oriented in the CSR - Responsible Business Conference. The Company's involvement in organising the Responsible Business Conference was an example of its volunteer sharing of its knowledge and know-how with the interested parties.



As many as 8 best practices of LW Bogdanka were distinguished in the "Responsible Business in Poland. Best Practices" report. The highest figure (5) was related to the "Work practices" area.



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



Award of the Association of Individual Investors for the highest level of investor relations addressed to individual investors. The award was presented during the annual Wall Street conference in Karpacz.



Bogdanka won an award in the "Lublin-based Safety Leader" in the Work Ergonomic and Safety category. Its actions taken with a view to ensuring the highest level of safety not only in the mine but in the whole region were highly appreciated.



For its achievements in this field, LW Bogdanka S.A. was awarded the CSR Silver Leaf by the Polityka magazine.



Recognition in the 2019 Responsible Companies Ranking (First place among mining companies).





Social matters

Membership in organisations, participation in industry initiatives

górnictwo 

CSR Trends Monitoring Team at the Ministry of Economy



Vision of Sustainable Development for Polish Business (Vision 2050)



Polish Association of Listed Companies



Civic Shareholding. Invest Consciously



LW Bogdanka – Investor Friendly Company

EURACOAL
(The European Association for Coal and Lignite)



School of Underground Exploitation

HUGE 2: Hydrogen Oriented Underground Coal Gasification for Europe – Environmental and Safety Aspects (international consortium headed by the Central Mining Institute in Katowice)



LW Bogdanka: PN-EN ISO 9001:2015, PN-EN ISO 14001:2015, PN-N-18001:2004, BS OHSAS 18001:2007; Łęczyńska Energetyka: PN EN ISO 9001:2015 and PN EN ISO 14001:2015



Together for the mining industry - Joint Social Initiatives Group "GÓRNICTWO O.K."

LW Bogdanka S.A. has joined the Górnictwo O.K. project initiated by the AGH University of Science and Technology in Krakow, which aims to implement and communicate socially responsible actions, demonstrate the importance of the CSR strategy in achieving financial objectives of mining companies, and cooperate in the development of the standards for managing the process of exerting an impact on the local environment, market and employees. The Initiative has attracted companies from the mining sector, cooperating companies, universities and industry-related NGOs.

This project, which was initiated during the School of Underground Mining in 2016, is a confirmation that in those challenging times, the mining industry is able to speak with one voice, implement innovative solutions and develop human capital. Meetings organised with industry representatives from the neighbouring countries such as Germany, Czech Republic or Ukraine contribute towards achieving objectives the Initiative has set for itself. The GÓRNICTWO O.K. is also a communication platform between individual companies from the mining industry and the society, which should be a tool for building a positive image of the mining sector in Poland and getting involved in appropriate lobbying exercises.





Social matters

The above data refer to LW Bogdanka S.A.
The subsidiaries' expenses on the actions described below are of marginal nature.

CSR – expenses [PLN '000]	2018	2019
CSR	241.6	498.9

Donations

LW Bogdanka S.A. is an appreciated employer, an active participant in local communities lives and an economic pillar of the region. The Company's key resource are the people who identify with it and its brand and mission. Counting both employees and their families, more than 10,000 people are directly and indirectly financially associated with. In its pursuance of the goal to build social support for business activity, the Company is interested in supporting values which integrate social communities.

Such a philosophy is reflected, among other things, in the support given to non-commercial local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community.

Donations [PLN '000]	2018	2019
Donations	398.9	637.7

Donations [entities]	2018	2019
Beneficiaries of the donations fund of LW Bogdanka S.A.	36	51

Risks associated with social matters

Risk associated with the strong position of the trade unions

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently deciding on renegotiations of wage policy through protest actions. As at the day of submitting this Report, 6 trade union organisations operate at the Group, associating more than a half of all the employees. Strong position of the trade unions creates a risk that the costs of remuneration may increase in the future in connection with negotiated wage agreements, and in consequence adversely affect financial results achieved by the LW Bogdanka Group. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW Bogdanka S.A. The Group manages the risk through cooperation and permanent constructive dialogue with the representatives of the Trade Unions as well as through talks and negotiations in situations of potential conflict. In 2018 over 20 dialogue sessions with the representatives of the social partners were organised.



Risk of conflict with the local community

Any production plant engaged in transmission activities generates emissions and exerts an impact (mining damage). This may be a burden for the local community residing in the vicinity of the plant. Mining activities have a major impact on the surrounding areas. Such impact manifests itself, among other things, in ground settling and local flooding. Such a situation may cause dissatisfaction or protests of the local inhabitants.

The Group manages the risk by strictly complying with the environmental protection laws and undertaking own initiatives aimed at reducing the impact that the Group exerts on the natural environment (e.g. projects related to the protection of biodiversity in the mine's neighbourhood). In addition, the Group compensates losses, if any, incurred as a result of its activities by facilitating the process of filing claims related to mining damage (e.g. online forms). What is more, the Group organises socially-oriented events to compensate for the inconvenience it causes to the local community. The fact that the Group is the largest employer in the region, offering stable employment conditions, helps to build the mine's positive image in the Lublin area.





Environmental matters - Location of the LW Bogdanka Group

The entire infrastructure of the Group and the "Puchaczów V" and "Stręczyn" mining areas are surrounded with protected land.

The immediate vicinity features:

- the Polesie National Park,
- The Łęczna Lake District Landscape Park.

The eastern part of the Ludwin mining field covers large areas of the Łęczna Lake District Landscape Park. The Brzeziczno Lake Reserve together with the separated Nature 2000 site are also located within the boundaries of the Park.

The connected mining areas, in their central and eastern parts, overlap with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009) and "Polesie" (CODE PLB 060019). This region is also a part of the "West Polesie International Biosphere Reserve". The Polesie Protected Landscape Area is located in the east, while in the south-east there is the Chełm Protected Landscape Area.

The Group's activity materially affects the environment. Given the above, the Group pursues long-term pro-environmental actions resulting in implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001 as well as on-going operational activity with a view to minimising the Group's impact to the environment.





Environmental matters

Air protection

- The Group does not have an organised emitter that would emit dust and gases to the atmosphere
- a non-organised emitter at LW Bogdanka is the mining waste disposal facility which may be a source of dust on dry and windy days
- non-organised emission to the air is caused by welding processes and fuel combustion in diesel engines used in the Parent.

Water and sewage management mainly concerns mine water, and includes:

- rock mass draining at working sites
- use of underground water for fire and process purposes
- pumping water to the surface
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczynska Energetyka Sp. z o.o. - as part of Water Treatment Station operations)
- retention of mine water in a surface sediment tank in order to reduce suspension
- discharge of water from tank through a drench system and the Rów Żelazny ditch into the Świnka River in the amount of about 14,738 m³/day.
- the content of chlorides and sulphates in mine water is 1075 mg/dm³.

Waste management:

- in 2019, total mining waste amounted to 6,299,900 tonnes,
- approximately 49% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 3,061,800 tonnes,

- 97% of waste is used for the purpose of rehabilitation of degraded land and land suffering from mining damage. It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.
- other post-mining waste (3,238,100 tonnes) is stored at the mining waste neutralization facility in Bogdanka.
- The Parent manages other post-industrial waste by contracting to authorised entities the treatment of reusable waste (waste wood, used oil, scrap, conveyor belt off-cuts etc.) and waste which cannot be reused (used light sources, adhesive and paint containers, etc.).

Reclamation

- In 2019 reclamation works were completed on the areas which suffered mining damage in Nadrybie Wieś. The works consisted in the construction of fish pond and heightening the level of ground with the use of mining waste, covering it with soil and planting trees and preparing the land for recreation. The works were completed in August 2019.
- maintenance works are performed on an ongoing basis with respect to the greenery, a facility used as a mining waste dump, previously-remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

Surface protection

- the influence of mining works performed in 2019 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact
- maximum soil subsidence within the "Puchaczów V" mining area remain within the area of the village of Bogdanka and Nadrybie Wieś,

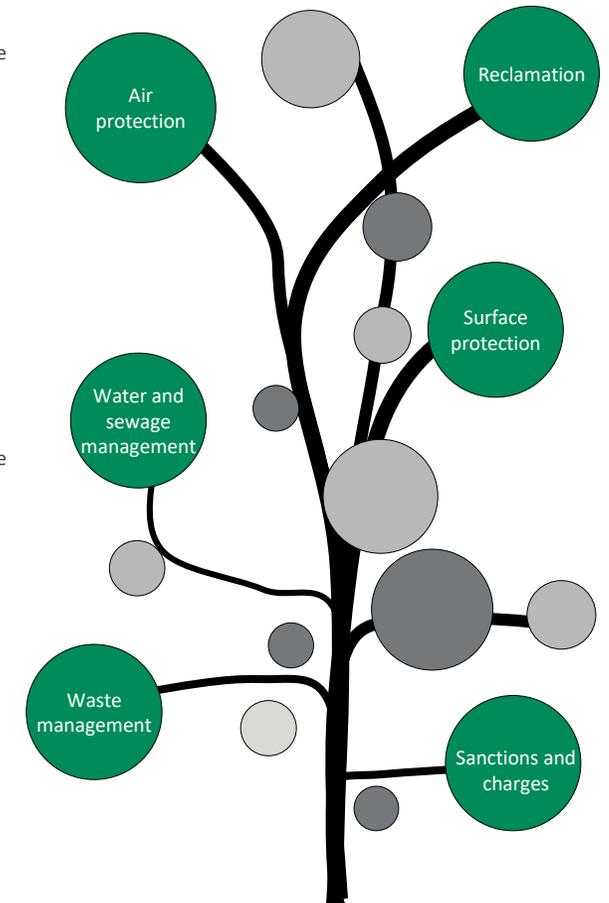
- Puchaczów commune, at a level of 5.0 m in the central part of the settlement basin in this region damage to buildings in 2019 – as to date – were primarily related to rural buildings. The reported damage to those buildings did not pose any threat to their users and were removed on an ongoing basis
- In 2019 works were carried out in relation to drainage of agricultural land on mining damage through the reconstruction of drainage network and construction of pumping station with equalising tanks.

Environmental protection sanctions and charges to which the Parent is exposed

- mining activity is associated with operating and environmental charges, charges for use of water, and a number of costs connected with:
 - post-mining waste management
 - post-industrial land rehabilitation
 - environmental monitoring
 - preparation of certified reports and documentation necessary for proper operation of the plant.

The exploitation charge is paid every half a year to the accounts of communes where exploitation is conducted (60%) and towards the National Environmental Protection Fund (40%).

The Parent complies with environmental standards, and did not incur any penalties in 2019 for violation of environmental rules laid down in the applicable laws.





Environmental matters

Key ratios

Electrical energy consumption [MWh]					
LW Bogdanka S.A.			LW Bogdanka Group		
2017	2018	2019	2017	2018	2019
320,521	334,818	322,887	326,444	340,823	328,211

Water consumption [m ³]					
LW Bogdanka S.A.			LW Bogdanka Group		
2017	2018	2019	2017	2018	2019
7,411,852	8,039,967	8,403,229	7,537,504	10,770,192	11,622,978

LW Bogdanka S.A. 2017	2018		2019			
	Production	Recovery	Production	Recovery		
Excavation waste	5,693.7	2,682.7	6,646.2	3,093.1	6,299.9	3,061.8
Post-industrial waste	18.1	18.1	19.1	19.1	19.9	19.9

Environmental protection at LW Bogdanka S.A. [PLN '000]	2017	2018	2019
Waste utilisation	33,269.0	36,729.0	38,739.7
Protection costs (remediation, monitoring, etc.)	1,990.0	3,985.7	6,473.6
Charges for the economic use of the environment	399.0	451.5	507.4

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

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

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

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



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

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

On the basis of a building permit, the Company performs works connected with increasing the height of the existing yard (to 250 MASL) and expanding the yard to the east, as well as it undertook measures aimed at acquiring adjacent areas in order to further extend the facility. Failure to implement this investment may entail the risk of disrupting the stability of the extraction process.

Countermeasures: The Company performs works connected with increasing the height of the existing mining waste utilisation facility and expanding the area to the east. Further, it continues works

on acquiring new land to execute the next phases of extension of the yard.

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



Investment risks associated with protected areas

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

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

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





Human Rights matters

Respect for human rights

Respect for human rights is a strict obligation of every organisation and its employees. This obligation results from the legal system applicable in the United Nations (Universal Declaration of Human Rights), the European Union (European Convention on Human Rights) and in Poland, especially the Constitution of the Republic of Poland, which guarantees respect for human rights and civil rights, including:

- right to freedom (Article 31)
- equality before the law and non-discrimination (Article 32)
- equality before the law irrespectively of sex (Article 33)
- right to privacy (Article 47)
- freedom and integrity of the person (Article 41)
- freedom of religion and belief (Articles 53-54)
- freedom of assembly and association (Articles 57-59).

At LW Bogdanka S.A. issues related to the respect for human rights are regulated in internal documents, including:

- Code of Ethics
- Supplier Code of Conduct of LW Bogdanka S.A.
- "Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics"
- CSR Strategy.

In addition, the Group's activities with respect to social responsibility are compliant with the Sustainable Development Goals (SDGs), including with the fifth goal, which provides for equality irrespective of sex.

By developing and adopting the above-mentioned regulations, the Company has undertaken to respect human rights and to actively promote such rights.

In a situation where such rights are violated, appropriate measures are undertaken to immediately

change the negative situation.

Just like in the majority of companies, in the case of relations between employees, it is of utmost importance to make sure that human dignity is respected and to counteract discrimination. Pursuant to the Code of Ethics applicable at the Company, any forms of discrimination, both direct and indirect, abuse or harassment are absolutely inadmissible and unacceptable at the LW Bogdanka Group. Every employee is obliged to counteract any discriminatory acts and strongly protest against such acts.

Every new employee is informed of the Code of Ethics during induction training. All employees are familiarised with the contents and mechanisms described in the code - all of them (100%) received a hard copy of the Code and signed it for confirmation.

Moreover, the Company has adopted the "Policy for determining the procedure and manner of organisation of training and surveys and dissemination of knowledge in the area of compliance with and promotion of principles of the Code of Ethics and prevention of frauds at LW Bogdanka S.A." The Policy was prepared in consultation with Heads of the Human Resources Management Department, the Marketing and PR Department and the Audit and Internal Control Department to regulate the procedure for training in values and ethical standards.

In addition to training, measures are undertaken with a view to promoting ethical behaviour and preventing any situations where human rights could be violated. Such measures are also supported by internal communication channels such as the Company's website, information boards spread throughout the premises of the mine, roll-ups, banners, internal and local magazines, and other channels which prove most effective under given circumstances.

In 2019, as part of the staff induction training and as part of the occupational health and safety training for team leaders, the Ethics Representative provided

training in the Code of Ethics to the total of 207 employees of the Company, including 100% newcomers. Further, the Ethics Representative prepared for all employees an opt-in training session (July 2018) about mobbing and discrimination along with practical examples, images etc. and an exemplary test to be taken voluntarily and repeatedly. The training was described in the Company's intranet.

The Ethics Representative monitors compliance with the Code of Ethics and the resulting human rights regulations. The Ethics Representative reports directly to the Vice-President of the Management Board for Employee and Social Affairs. The Ethics Representative is responsible for developing the documents and training referred to above and actively participates in their implementation and enforcement. The Ethics Representative's task is to proactively monitor instances of potential violation of the Code of Ethics, look for solutions to any problems that may appear. Each month the Ethics Representative provides a report to the Vice-President of the Management Board for Employee and Social Affairs (responsible for the supervision of issues related to ethics management), about problems which had occurred and how they were resolved.

Employees may, or even are obliged to, report instances of potential incompliance or unethical behaviour. The employees may contact the Ethics Representative in person, or by phone, post or e-mail. Moreover, the employees are welcome to use mail boxes located in all three mining areas and in the Management Board building. In this way, the employees may remain anonymous.

Total number of incidents of discrimination (at the workplace) in 2019

Since 2014, bidders wishing to cooperate with the Company must submit statements on compliance with the rules of ethics, human rights, environmental protection and labour law, including health and safety.

Any contracts entered into by the Company contain relevant provisions, including permission for an audit to be conducted by or on behalf of LW Bogdanka S.A. In 2019, statements relating to such matters as respect for human rights were submitted in all (100%) tender procedures (except for small procedures carried out without tender where such statements are not required).

Moreover, a document titled "Supplier Code of Conduct of LW Bogdanka S.A." has been in force at the Company since 2015. The Code regulates matters related to:

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

It is expected of the subcontractors working in LW Bogdanka S.A. that their employees comply with the Code of Ethics applicable at the Company. They may also provide information on any potential infringement of the Code.

Total number of incidents of reported infringements – complaints and reservations regarding a failure to observe the Code of Ethics in 2019

-

39



Human Rights matters

Key indicators (LW Bogdanka S.A.)

Agreements with human rights respect clause [%] **2019**
Share of agreements with human rights respect clause 100%

Employee training [number of people] **2019**
Number of employees who were given training in the respect for human rights 207

Penalties for infringement of human rights and employee rights [PLN] **2019**
Total value of penalties imposed on the Company for infringement of human rights and employee rights 0



Risk of human rights infringements at the Company

The LW Bogdanka Group strictly complies with the provisions of Polish law, including those concerning the respect for human rights, which is guaranteed under the Constitution and the relevant acts of parliament. Irrespective of the above, the scale of the Company's activities and a substantial number of employees are factors which may entail the risk of an infringement of human rights, especially in the area of dignity and respect for the rules of diversity. Despite the fact that additional internal regulations have been introduced in that respect (Code of Ethics) and numerous educational campaigns have been carried out, the Group has limited influence on discriminatory incidents among employees. The Group manages the risk by continuously monitoring any incidents of human rights infringement and by organising the relevant training sessions and information campaigns. Ethics Representative has been appointed at the Parent to ensure compliance with the Code of Ethics at the Group. All employees who have been discriminated against or have witnessed any discriminatory incidents may seek support from the Ethics Representative and enforce their rights in that respect.





Anti-corruption matters

Anti-corruption measures

Just like in the case of matters related to the respect for human rights, the anti-corruption policy is mainly included in the Code of Ethics. In addition to the above-mentioned code, the issue in question is addressed in the following documents:

- "Fraud Prevention and Fraud Risk Management Policy was introduced at LW Bogdanka S.A."
- "Guidelines on Accepting and Handing Gifts at LW Bogdanka S.A."

The Code of Ethics adopted at the LW Bogdanka Group at the mine sets out ethical values and principles which should be followed in the Company, and presents, in an intelligible manner, any potential undesirable situations. The Code addresses matters related to non-competition, conflict of interest, as well as anti-bribery and anti-corruption measures.

Ethical standards described in the Code of Ethics applicable at the LW Bogdanka Group define Corruption as an act (action) which is strictly prohibited for all the employees, irrespective of their position within the organisational structure. Under the Code, corruption is an action which involves the following:

- promising, proposing or providing by any person, directly or indirectly, any undue benefits to an employee – irrespective of their position and function at the Company – or to any other person, in exchange for an action or omission in the context of their professional duties demanding or accepting by a Company employee, directly or indirectly, any undue benefits, for the employee or for any other person, or accepting offers or promises of such benefits, in exchange for an action or omission in the context of their professional duties

- abuse of powers or failure to comply with the obligations by a Company employee resulting in damage to the Company's interest, committed in order to obtain any undue benefits for the employee or for any other person.

The Group has also introduced Guidelines on Accepting and Handing Gifts. It is prohibited to accept and provide gifts other than advertising gadgets.

Designated Company employees (including Management Board members and employees of promotion-related departments) may only provide and accept minor gifts such as promotional and advertising gadgets (usually objects marked with a brand logo or an advertising slogan) which are commonly exchanged in business relations (e.g. a calendar, notebook, pen or an invitation to a customary meal), with a proviso that such a gift may not have an influence on any decision on whether to establish and how to develop cooperation with an entity represented by the person who has provided or the person who has accepted the gift.

An issue that is very similar to the subject of corruption is the concept of a conflict of interests. A conflict of interests may result from personal relations, financial relations, additional activities of an employee or other commitments that may affect impartiality during a decision-making process regarding the choice of a potential business partner for the Company. Such matters are also regulated in the Group's policies.

Every new employee is informed of the Code of Ethics during induction training sessions, receives a copy of the Code, and fills in a Conflict of Interest Report which is subsequently provided to the Director of the Management Office.

Just like in the case of respect for human rights, the person responsible for monitoring and managing anti-corruption matters in the Ethics Representative. The Audit and Internal Control department serves an auxiliary function in this respect.

In 2019, the Ethics Representative did not record any instances of abuse. It is important that employees maintain integrity in different areas of our business, report and resolve borderline situations, apply high moral standards, etc. in order to eliminate any conflicts of interests, etc., build a positive image of the Company, show good manners and maintain mutual trust, in both personal relations and in the workplace.

Key ratios

Corrupt practices [number]	2019
Number of confirmed instances	-

Anti-corruption training [%]

Share of employees who were given anti-corruption training	100%
Percentage of employees who were informed of the anti-corruption policies and rules	100%

Anti-corruption risks

Risk of corruption incidents among Company employees

It is unacceptable that any actions take place at the LW Bogdanka Group that have any characteristics of corrupt practices or that any situations occur that raise doubts as to the impartiality of the employees during the process of granting contracts. Irrespective of the procedures and regulations adopted by the Company in that respect, there is a limited risk that situations related to corruption may occur.

Employees that are highly vulnerable to such situations are those who work in departments with direct contact with the representatives of external entities that may derive specific economic benefits as a result of establishing cooperation with the Company.

The Company manages the risk through various of internal regulations and procedures under which the employees are obliged to maintain impartiality while performing their professional duties and prohibited from accepting and economic benefits from external entities. Training sessions in that regards are also organised. In addition, the relevant internal units (Audit and Internal Control Department and Ethics Representative) carry out periodical audits and inspections.





Glossary



- **CSR** – Corporate Social Responsibility
- **Net debt/ EBITDA** – product of net debt (i.e. the total current and non-current liabilities less cash and equivalents) to EBITDA
- **EBIT** – earnings before interest and taxes
- **EBITDA** – EBIT increased by depreciation and amortization and impairment losses
- **Fairness opinion** – a report from the valuation of a business, a statement certifying that the price of a given transaction is fair
- **GRI** – Global Reporting Initiative
- **Audit Committee** – a team within the Supervisory Board responsible for overseeing the company's financial reporting
- **PTE** – Technical and Business Plan
- **LWB** – Lubelski Węgiel Bogdanka S.A.
- **IFRS** – International Financial Reporting Standards
- **Extraordinary General Shareholders Meeting** – Extraordinary General Shareholders Meeting of LW Bogdanka S.A.
- **NFOŚiGW** – National Environmental Protection Fund
- **OUG** – Regional Mining Authority
- **PFRON** – the National Fund for the Disabled
- **PGG** – Polska Grupa Górnicza (Polish Mining Group)
- **Supervisory Board of LWB** – Supervisory Board of LW Bogdanka S.A.
- **Gross margin on sales** – the rate of return on sales calculated by dividing the profit by the volume of sales
- **EBITDA margin** – operating profit plus depreciation and amortization to total revenue
- **EBIT margin** – ratio of EBIT calculated for a period and the revenue from the sales of the period
- **Gross margin** – ratio of gross profit (before taxes) and net sales
- **Net margin** – ratio of net profit and net sales
- **Return on Assets (ROA)** – ratio of a company's net profit to the value of its assets
- **Return on Equity (ROE)** – ratio of net profit to equity
- **Respect Index** – an index of socially responsible companies
- **SIN** – Non-Financial Information Standard
- **SRK** – Spółka Restrukturyzacji Kopalń S.A.
- **WFOŚiGW** – the Provincial Fund for Environment Protection and Water Management
- **Debt ratio** – ratio of total liabilities to total assets
- **Debt to equity ratio** – ratio of total liabilities to equity
- **Non-current assets to equity ratio** – ratio of the sum of equity, non-current liabilities, non-current accruals and non-current assets
- **Current debt ratio** – ratio of current debt to total assets
- **Non-current debt ratio** – ratio of non-current liabilities to equity
- **Current liquidity ratio** – ratio of current assets and current liabilities
- **Quick liquidity ratio** – define a company's ability to meet its short-term obligations with its most liquid assets



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, 25 March 2020



LW Bogdanka S.A.
Bogdanka
21-013 Puchaczów

E-mail: ri@lw.com.pl