



**2020**

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



**of 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

**14.5%**

Share in the thermal coal market

**19.7%**

Share in the supplies of coal to the  
commercial power sector

**25.3%**



**Dear Sirs and Madams,**

I am pleased to present to you the Directors' Report on Operations for 2020.

It was a difficult year not only for Bogdanka, but also for the whole economy, affected by the downturn resulting from the coronavirus-related restrictions. Despite these difficulties, the year can be assessed as good for LW Bogdanka S.A. We started excavating the historically longest panel (7 km), and at the end of the year we announced a new Development Strategy of LW Bogdanka S.A.

In 2020, the production of Bogdanka's commercial coal amounted to 7.6 million tonnes. In the same year the Group generated revenue at a level of PLN 1.8bn compared to PLN 2.2bn in 2019, EBITDA PLN 466.2mn, net profit - PLN 73mn. Yield stood at a level close to that of 2019 and was 64%. One should remember that the presented results are being compared with 2019 which was the

best year ever in Bogdanka's history as an entity operating in the hard coal market.

We continue to retain a strong market position achieving in 2020 the share in the market of thermal coal sales of 19.7%, and the share in the market of thermal coal sales to commercial power plants of 25.3%.

In the second half of 2020 we started excavating the longest (7 km long) panel. Excavations in this panel were preceded by preparations, for several years, including both making galleries and developing digital tools. This resulted in preparing a wall which is the first, in the Polish hard coal mining industry, wall 'intelligent' to such a large extent; it is also the first example of such a comprehensive use of digital tools, including the Internet of things. The average daily output may be as much as up to 20,000 tonnes, but the capacity of the wall complex should allow the Company to excavate, at certain stages of exploitation, even 30,000 tonnes per day.

In December 2020 we presented the Development Strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2025 (under the 2030 framework), including the dividend policy. The Strategy presented by Lubelski Węgiel Bogdanka is the response to a challenge included in the draft Poland's Energy Policy until 2040. It primarily focuses on maintaining production capacity, high profitability ratios, respect for the environment and keeping the position of economic and social pillar of the region. Key assumptions of the Strategy aim at maintaining production capacity, high profitability ratios of the Company, selective extraction of type 34 coal, diversification of revenue by widening areas of its

activities as well as identifying, recognising and documenting new type 35 coke coal resources.

We continue to monitor the situation related to the epidemic of SARS-Cov-2, developing since the beginning of 2020. We have implemented 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. In order to mitigate the negative influence of coronavirus on its financial results, the Group took a number of adjusting and optimizing measures.

Bogdanka actively participates in discussions regarding the future of hard coal mining sector, which are to result in a new social agreement regulating the functioning of the mining sector until 2049 and defining how its transformation is to be effected.

We wish to remain the efficiency leader in the mining sector with the highest occupational safety standards, who flexibly adjusts to environmental requirements and market conditions, and builds "Green Deal" as part of diversification of business activity.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Artur Wasil', written over a white background.

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

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# 1

Summary of operations

## Operating data

Gross coal extraction – 11.9 million tonnes  
Production of commercial coal – 7.6 million tonnes  
Yield – 64.0%  
Sale of commercial coal – 7.7 million tonnes  
New excavations – 25.7 km

## Financial data

Revenue on sales – PLN 1,822.1 million  
Profit on sales – PLN 96.7 million  
EBIT – PLN 95.2 million  
EBITDA – PLN 466.2 million  
Net profit – PLN 73.0 million

## Workforce

Headcount at the end of 2020 – 5,709 FTJs  
Increase in headcount comparing to 2019 – 1%



LW Bogdanka S.A. is one of the leading 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. The Company has been listed at the Warsaw Stock Exchange since 2009.



LW Bogdanka S.A. has three excavation fields:

- Bogdanka
- Nadrybie
- Stefanów

In 2020, the coal production structure was as follows:

- fine coal – 99.2%
- pea coal – 0.8%

The Company's main customers include (% share in revenue):

- the Enea Group – Enea Wytwarzanie (65%)
- the Enea Group – Enea Połaniec (11%)
- Azoty Group - Zakłady Azotowe Puławy S.A. (8%)
- Energa Elektrownie Ostrołęka (1%)

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.

**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.

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.

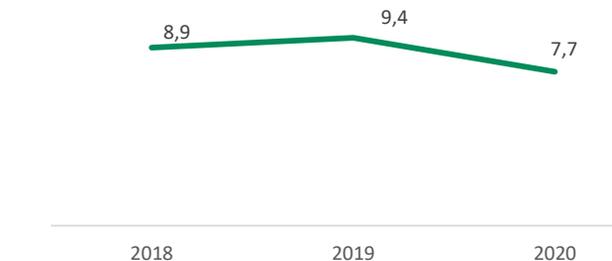
The following factors contributed to our success:

- 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
- 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.

Production [million tonnes]



Sale [million tonnes]



## Key events in 2020

### Q1 2020

- court registration of the amendments in the Articles of Association of LW Bogdanka S.A.
- the epidemic of SARS-Cov-2 coronavirus causing the COVID-19 disease (for details see page 33)

### Q2 2020

- Management Board's recommendation regarding the allocation of the net profit for 2019 to the reserve capital of the Company received a positive opinion from the Company's Supervisory Board
- session of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. – amendment to the Company's Articles of Association
- concluding an Annex with Enea Elektrownia Połaniec S.A.
- court registration of the amendments in the Articles of Association of LW Bogdanka S.A.

### Q3 2020

- session of the Annual General Shareholders Meeting of LW Bogdanka S.A. – approval of financial statements, directors' report, adoption of resolution on the distribution of profit, granting discharge to the members of the Management Board and the Supervisory Board, appointment of the members of the Supervisory Board for a new term
- session of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. – appointment of new members of the Company's Supervisory Board
- First Call to Shareholders of LW Bogdanka S.A. to submit their share certificates to the Company
- update of production target for 2020

### Q4 2020

- appointment of a member of the Company's Supervisory Board by the Minister of State Assets
- financial support provided by Provincial Labour Office in Lublin in the total amount of PLN 33.7 million
- resignation of Chairwoman of the Supervisory Board
- Second Call to Shareholders of LW Bogdanka S.A. to submit their share certificates to the Company
- session of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. – appointment of a new member of the Company's Supervisory Board
- concluding an Annex with Grupa Azoty Zakłady Azotowe Puławy S.A.
- Third Call to Shareholders of LW Bogdanka S.A. to submit their share certificates to the Company
- Presentation of key components of the Development Strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2030 (under the 2040 framework), including its dividend policy
- Fourth Call to Shareholders of LW Bogdanka S.A. to submit their share certificates to the Company
- convening an Extraordinary General Shareholders Meeting of LW Bogdanka S.A. – amendment to the Company's Articles of Association

### Key events after the balance-sheet date

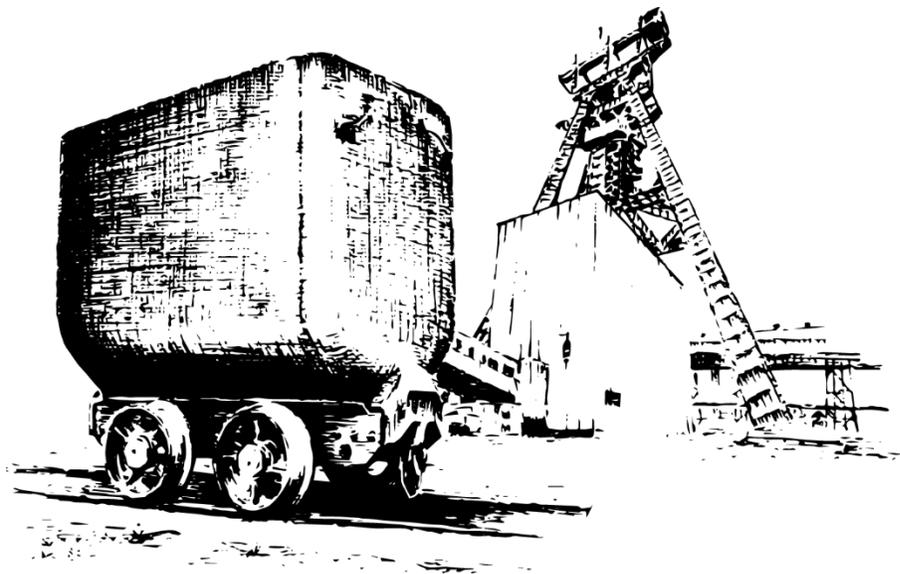
- conclusion of an Annex to the Long-term Agreement with ENEA Wytwarzanie Sp. z o.o.
- court registration of the amendments in the Articles of Association of LW Bogdanka S.A.
- concluding an annex with Enea Elektrownia Połaniec S.A.
- Fifth Call to Shareholders of LW Bogdanka S.A. to submit their share certificates to the Company
- Conclusion of an additional agreement and annexes to the long-term agreement with ENEA Wytwarzanie Sp. z o.o.





## 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:

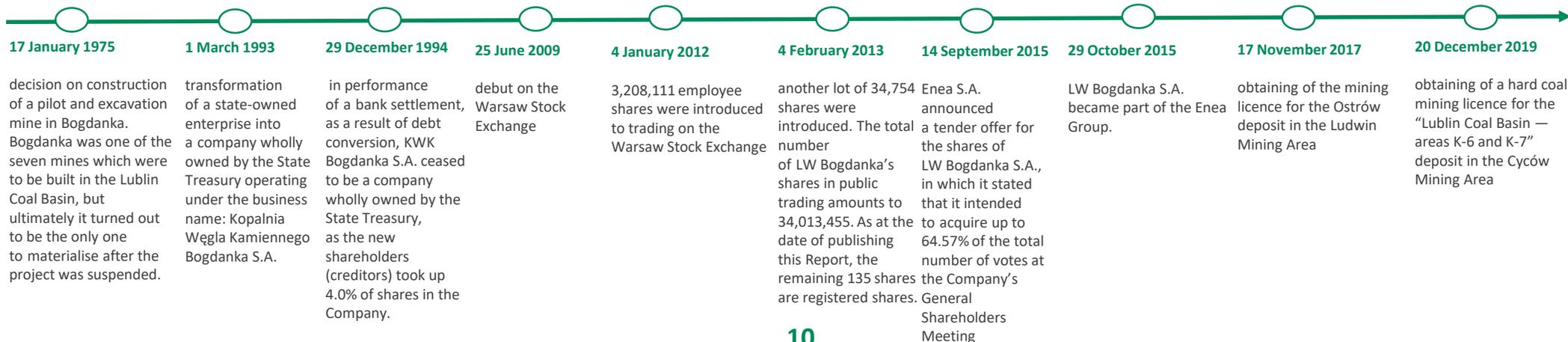
- Act of 15 September 2000 – Commercial Companies Code
- Act of 9 June 2011 – Geological and Mining Law

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





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 steps were taken in 2020:

- Description of the key service and the Method of Risk Management with respect to the Key Service Cybersecurity;
- Policy of conduct in the recruitment and selection of the employees of Lubelski Węgiel Bogdanka S.A. for production positions and management and specialist positions;
- Amendments to the Method of Risk Management with respect to the Personal Data Processing;
- IT system for monitoring mining agreements data for the reporting system;
- Method of Risk and Chance Management in Departments of Mining and Preparatory Works at Lubelski Węgiel Bogdanka S.A.;
- Policy for Safety of Information in the IT Systems of Lubelski Węgiel Bogdanka S.A.
- The rules of home office for the employees of Lubelski Węgiel Bogdanka S.A.;
- Comprehensive package of procedures, instructions and rules in a situation of suspected SARS - CoV-2 infection of an employee in the facilities of Lubelski Węgiel Bogdanka S.A., outside the facilities of the Company and in the event of occurring a confirmed case of coronavirus infection along with an instruction of evacuation of employees with suspected infections to separated places and securing persons taking part in the evacuation;
- Rules of procedure in relation to letters from courts, prosecutor's office, police, Central Bureau of Investigation (CBA), Internal Security Agency (ABW) received by Lubelski Węgiel Bogdanka S.A. with an on-going update of the mail register;
- Amendments to the Company's Organisational Rules and the Organisation Chart;

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

## Production potential of LW Bogdanka S.A. and factors material for the development of LW Bogdanka S.A. and the whole Group

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, Łęczna, Ostrów Lubelski, Sosnowica, Uścimów and Puchaczów communes and municipalities, with an area totalling 78.67 sq. km; mining will be carried out in seams 377/1, 379, 382 and 385/2
- 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.

Factors material for the development of LW Bogdanka S.A. and the whole Group

- stable level of sales thanks to being part of the Enea Group
- rich resources of hard coal ensuring continuity of production for a long time
- highly qualified employees, technical culture
- innovativeness and development of cutting-edge technologies
- long-term experience translating into efficiency and flexibility in the conducted business



Hard coal reserves - Bogdanka (Puchaczów V) - updated as at 31 December 2020

Reserves [million tonnes]	year			Difference 2020-2019
	2018	2019	2020	
Total balance	746.8	742.6	738.9	-3.7
Industrial	262.0	247.3	243.9	-3.4
Operating resources	195.9	185.7	182.9	-2.8

Hard coal resources (updated as at 31 December 2020)

Reserves [million tonnes]	Ostrów	K-6,K-7	Stręczyn, K-3
Total balance*	1,249.1	654.4	144.2
Industrial	248.5	91.1	25.3
Operating resources	170.1	65.6	20.4

\*Balance resources (covered by a licence)

## Licences

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

- In the Strategy until 2030 (under the 2040 framework), the key areas for the Company include Puchaczów V, Stręczyn (K-3), Ludwin (Ostrów), and K-6, K-7
- The Company obtained a mining licence for the Ludwin area in 2017. This allowed the exploitable resources held by 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:				
a) drainage of the LW BOGDANKA S.A. mine in Bogdanka	ŚiR.III.6811/91/07	Lublin Province Governor	31 December 2007	31 December 2017
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	-

### LW Bogdanka S.A.'s development strategy in effect until 15 December 2020.

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.

As at 16 December 2020, the Parent announced an update of the Strategy described on page 16.

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

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

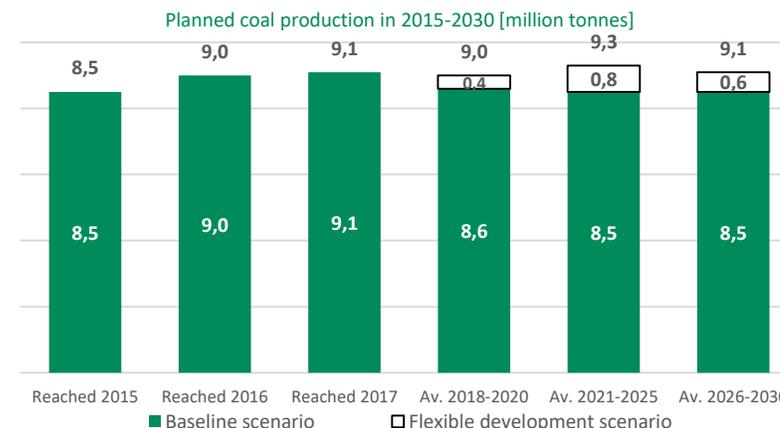
Until 2030, a key direction for the Parent will be the development of infrastructure in the Ludwin Mining Area (Ostrów deposit) – according to preliminary estimates the Parent will spend there about PLN 1.2-1.3 billion (in real terms) after 2025. This project is to ensure that the shaft complex in the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

#### Corporate social responsibility (CSR)

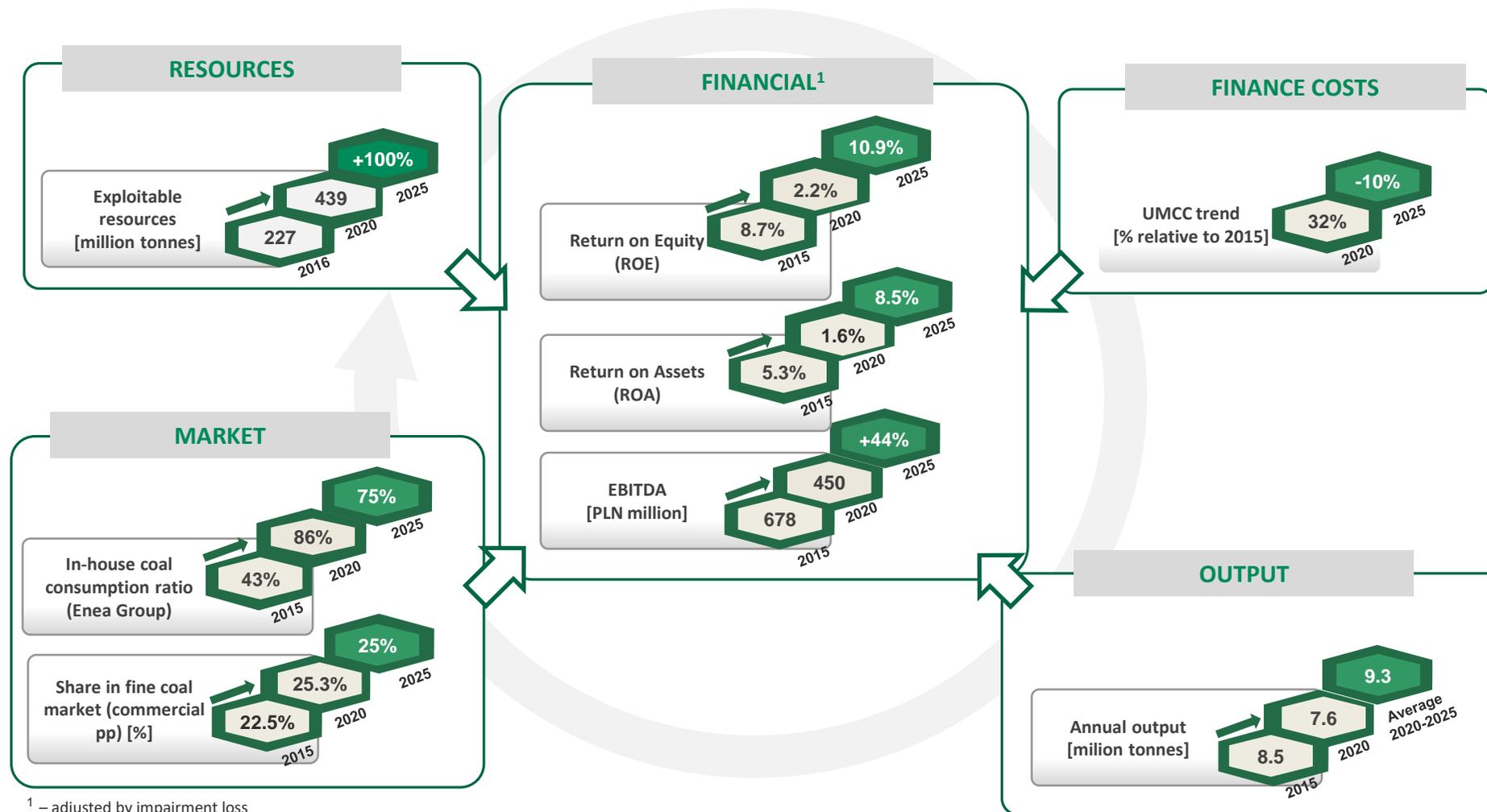
Because of its crucial importance to the region, one of the Group's goals, as always, is to run its business operations in compliance with the rules of corporate social responsibility (CSR) strategy, which includes ensuring the highest work safety standards, environmental effectiveness, the protection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

#### Dividend policy

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



Pursuance of LW Bogdanka S.A.'s strategy in 2020 (strategy in effect until 15 December 2020).



<sup>1</sup> – adjusted by impairment loss

## New Development Strategy LW Bogdanka S.A.

On 16 December 2020 the Parent announced key components of the Development Strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2030 (under the 2040 framework), including the dividend policy.

The adopted Strategy reflects Poland's 2040 Energy Policy and constitutes a link in the 2030 Development Strategy of the Enea Group (under the 2035 framework) as it covers, among other things, activities to meet the assumed demand for thermal coal on the side of power and cogen plants from the Generation Area of the Enea Group.

### Vision

"Bogdanka is the efficiency leader in the mining sector with the highest work safety standards, who flexibly adjusts to environmental requirements and market conditions, and builds "Green Deal" as part of diversification of business activity."

### Mission

"Bogdanka proves that it is a reliable supplier of coal for commercial power plants, able to maintain its competitive advantage and to ensure continuous increase in 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 main Strategic Goals were identified:

- Maintaining the position of the market leader in thermal coal supplies for commercial power plants in Poland, who successfully competes with importers;

- Maintaining high efficiency and profitability of production due to innovative organizational as well as technical and technological solutions.

Based on developed forecasts (Poland's 2040 Energy Policy, The National Energy and Climate Plan for the period 2021-2030), LW Bogdanka S.A. will aim to become the most cost-efficient producer of thermal coal in Poland, who can successfully compete with other coal producers and suppliers while maintaining the current production potential under the 2040 framework.

In order to complete the abovementioned assumptions, LW Bogdanka S.A. will take the following optimization actions:

- Increasing the number of products due to selective extraction (type 34);
- Broadening operating areas (diversification) – use of technical and human potential with a view to launching efficient initiatives outside of the core business;
- Identifying, recognizing and documenting new coal reserves (coking coal – type 35);
- Implementing own innovative solution programs (technical and technological, work safety) which allow competitive advantage to be maintained;
- Implementing key strategic initiatives defined for the Mining Area of the Enea Group Strategy.

While completing the assumptions enumerated above the Company plans to take advantage of its strengths, such as:

- Stable sales thanks to long-term agreements with coal recipients;
- Geographic rent – the only mine extracting coal in the Lublin Coal Basin;
- Low cost of extraction – the highest cost-efficiency on the market;
- Highly qualified employees, technical culture;
- Optimal use of production capacity;
- Constant dialogue with representatives of the employees and local community;
- Quoted Company status.

### Production

The Company plans to seize the opportunities provided by holding a mining license for Ostrów and "K-6, K-7" deposits.

The Company assumes average production in 2021-2025 at a level of 9.7 million tonnes. Only thermal coal would be produced during that period. Between 2026 and 2040, on the other hand, also coking coal will be extracted (type 34). Since 2026 the volume of coking coal will reach the level between 0.7 to 3.1 million tonnes annually, with average value of 1.9 million tonnes.

Hence, total average coal production until 2040 shall amount to approx. 8.8 million tonnes.

Due to length of walls reaching 6-7 kilometers, which is an innovation in Poland, but typical of global mining, the Company assumes higher excavation concentration and lower cost of mining which will allow it to successfully compete with coal providers, especially from abroad.

### Capital expenditure

Average expenditure in 2021-2025 will amount to approx. PLN 535 million, in 2026-2030 to approx. PLN 405 million, approx. PLN 352 million in 2031-2035, and approx. PLN 307 million in 2036-2040.

The quoted amounts do not include possible cost of making the Ostrów deposit vertically available (PL 2.1 billion).

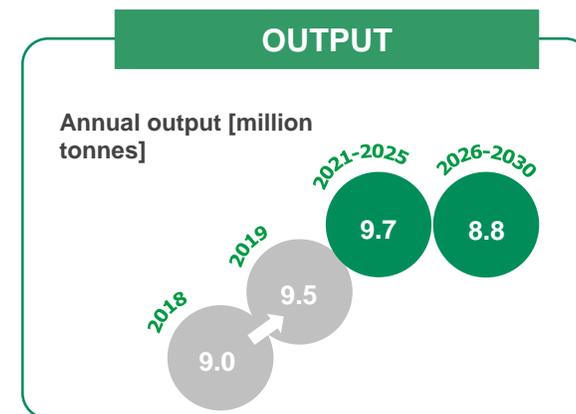
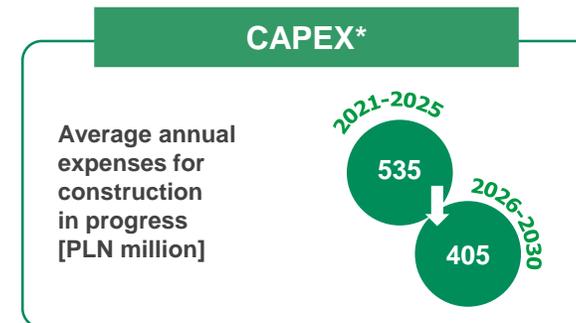
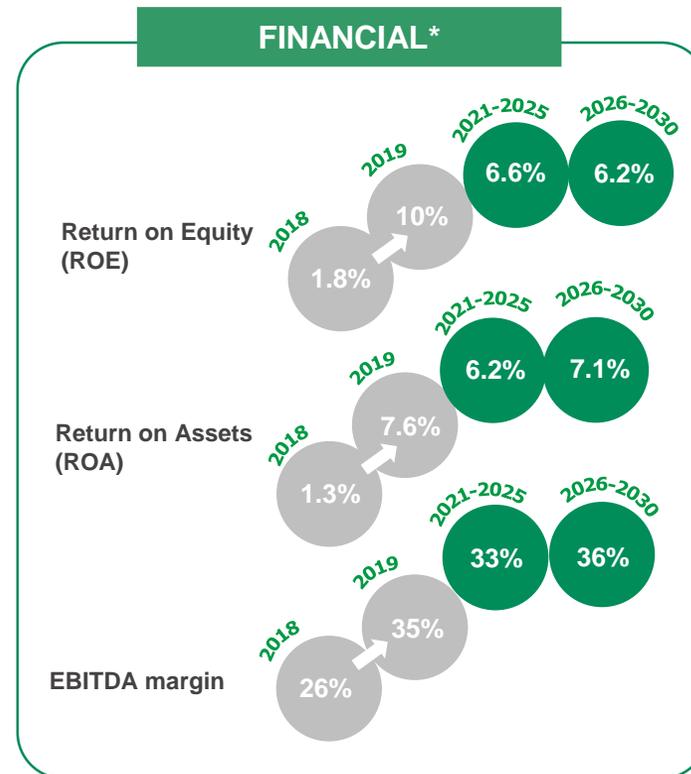
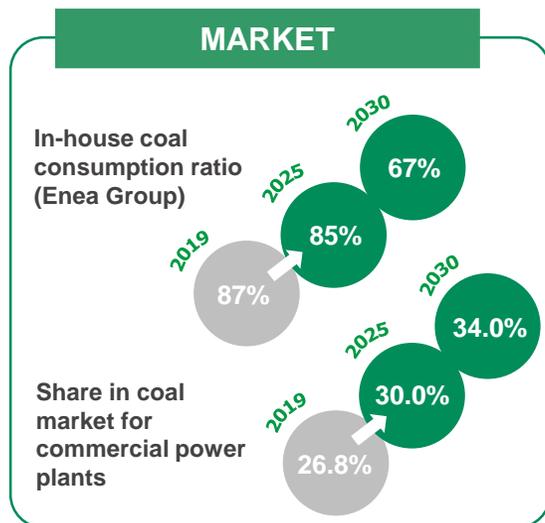
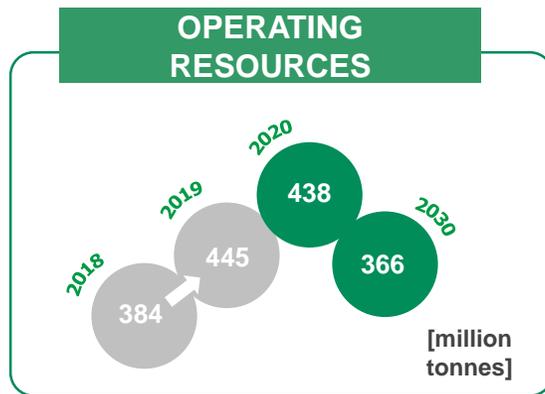
### Corporate social responsibility (CSR)

Because of its crucial importance to the region, one of the Company's goals, as always, is to run its business operations in compliance with the rules of corporate social responsibility (CSR), which include ensuring the highest work safety standards, environmental effectiveness, protection of local biodiversity, 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 (Green Mine).

### Dividend policy

In the medium and long run, LW Bogdanka S.A. 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 Company's separate financial statements, prepared in accordance with the International Financial Reporting Standards.

New Development Strategy of LW Bogdanka S.A.



\* Measures do not include expenditure and results of implementing strategic initiatives. Approximated price of thermal and coking coal in PLN/GJ was assumed for analysis.

## Development strategy of the subsidiaries

### Development strategy of Łęczynska 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 2022-2023 (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 - next year a concept of assumptions for 2022-2024 will be prepared.
- Modernisation of the main heat line Bogdanka - Łęczna – this task will be performed with a view to reducing significant transmission losses and protecting the network against gradual corrosion, thus making them available for use in subsequent years.

All investment projects are planned to be implemented from the Company's own funds, with a proviso that in the event of the Bogdanka-Łęczna line, as of 2022 the source of financing may change (in case the support funds are received).

### 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 2021 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 existing strategy of the company will be continued as its main development direction for the next years; the strategy assumes increasing the share of specialist mining works - drilling of excavations, redevelopments as well as works with the use of specialist machinery. These activities are aimed at stabilising the Company's position on the local market. Larger scope of activities will ensure its business continuity and will allow its employees to pursue their professional development through gradual improving their qualifications. In the long run, the company plans to develop its machine park, which is to ensure its independence and possibility to perform the full extent of mining works.

## Investment projects completed in 2020

In 2020, LW Bogdanka S.A. performed the planned investment tasks. In this respect, in 2020, capital expenditure for non-current assets totalled PLN 606,659,000.

The plan for 2020 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, enlargement of the coal storage yard, 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 – in 2020 the procedure of obtaining environmental decision was underway; the analysis of alternative solutions for ventilation of areas made available in the Ostrów Field is underway. The investment has been put on hold at the moment.

#### Maintenance of machinery

**Purchase of new machines and equipment** – in 2020 LW Bogdanka S.A. purchased and assembled machines and equipment for a total amount of PLN 76,737,000, including costs of assembling. The most important items include: belt conveyors, PEGAZ Leg-Support Device, JOY cutting machine, sections of the mechanised wall lining, sifters of main conveyor and air barrages.

**Purchases of finished goods (machines and equipment)** – in 2020 the finished goods worth PLN 17,831,000 were purchased. The most important items included: ready-made transportation devices (including braking trolleys, transportation units), hydraulic pumps and aggregates, electric devices (including motors, protection devices tester, flameproof transformer stations, flameproof bay of substation), and other ready-made devices, as well as expenditure was made to “Innovations”, such as output loader set.

**Upgrades and repairs of machines and equipment** – the amount of PLN 23,059,000 was assigned for the modernisation of DHL roadheading machines, transformer stations, hoists, as well as for repairs of heading coal-cutting machines, Joy longwall coal-cutting machines, wall conveyors and coal wagon carts.

#### Longwalls

**Purchase and assembly of longwall systems** – PLN 167,115,000 was allocated for purchase and assembly of ploughing complex 5.

#### Other development investments

**Enlargement of the mining waste neutralization facility in Bogdanka** – expenditure of PLN 584,000 incurred. Design works are underway regarding enlargement as part of Stage II.

**Enlargement of the coal storage yard** – expenditure of PLN 1,546,000 was incurred for the redevelopment of a dike protecting the mine area at the side of underground water reservoir.

**Power, telecommunications and mechanical installations** – PLN 2,489,000; the investment included the expansion of the power engineering, teletechnical and data transmission networks.

**Switching stations and other electromagnetic systems** – PLN 1,300,000. The investments included: Modernisation of drive system and MW S 1.3 shaft signalling system, modernisation of SWG steering systems

**MCCP replacement projects** – expenditure of PLN 2,420,000 was incurred. The works on the task include further modernisation of steel structures and MCCP facade, casing of electric hoists and conveyor weights in the MCCP area..

**Construction and modernisation of facilities and installations related to core operations** – PLN 19,256,000 was allocated for continuation of the investment, including modernisation of the central air conditioning system in Stefanów.

**Other** - including construction of facilities on the surface of the Nadrybie, Bogdanka and Stefanów Fields – PLN 4,938,000 was allocated for the purchase of gantry crane in Stefanów, construction of a tower crane, hardening the yard next to the lift machinery building in Nadrybie.

**ICT** – PLN 2,592,000 was allocated for the purchase of computer equipment and systems.

### 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 2020 was equal to 21.8 km (with redevelopments - 25.7 km), with the value of PLN 229,439,000.

Modernisation of workings with respect to reconstruction of galleries, vertical excavations and modernisation of storage reservoirs was performed in accordance with the adopted schedules, and its total value was PLN 55,889,000.

## Investment projects completed in 2020

The LW Bogdanka Group subsidiary companies incurred expenditure for non-current assets of PLN 7,092,000.

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

**Łęczyńska Energetyka**

Investment tasks completed in 2020 included: expansion of the Water Treatment Station in Bogdanka and projects related to production, transmission and distribution of heat. In 2020 the Company's capital expenditure totalled PLN 5,455,000.

**RG Bogdanka, MR Bogdanka**

In 2020 incurred capital expenditure in the total amount of PLN 1,637,000. These expenses were related to material investments.

## Selected items of capital expenditure in the LW Bogdanka Group

[PLN '000]	PTE 2020	PTE 2020 implementation	PTE 2020 implementation [%]	PTE 2021
New workings and upgrade of existing ones	293,582	285,328	97.2%	297,846
Maintenance of machinery	126,775	117,627	92.8%	83,389
Obtaining new licences	350	-	0.0%	3,150
Ostrów Field	2,950	450	15.3%	-
Longwalls	166,750	167,115	100.2%	118,500
Other development investments	37,909	27,595	72.8%	62,696
ICT	6,705	2,592	38.7%	17,034
Administration	30	61	203.3%	50
Transport	95	334	351.6%	140
Other	5,476	5,557	101.5%	7,301
<b>Total CAPEX of LW Bogdanka</b>	<b>640,622</b>	<b>606,659</b>	<b>94.7%</b>	<b>590,106</b>
Łęczyńska Energetyka Sp. z o.o.	10,800	5,455	50.5%	5,262
Other subsidiaries	2,739	1,637	59.8%	2,323
<b>Total CAPEX at the LW Bogdanka Group</b>	<b>654,161</b>	<b>613,751</b>	<b>93.8%</b>	<b>597,691</b>

## Capital expenditure for excavations in 2020.

Excavations and works – total	Depreciation method	Length [m]	Value of the coal from the excavations [PLN '000]	Full value of capital expenditure [PLN '000]	Value of capital expenditure [PLN '000]
Longwall excavations	natural	16,440.5			
Basic excavations	linear	4,682.8	55,071	340,399	285,328
Reconstructions	linear / natural	2,557.8			

The total length of the corridor workings made in the period of 12 months of 2020 was 23,189.5 m. The reconstructions of the workings were executed as per the assumptions of the time schedule. The total expenditure on reconstruction of the corridor workings in that period amounted to PLN 55,889,000. The total expenditure incurred on the new workings and on the modernization of the existing ones amounted to PLN 229,439,000.

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 2,066.2 m.

## Planned investment tasks in 2021

Investments Operational LW Bogdanka S.A.	<p><b>New workings and upgrade of existing ones</b> 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, and Nadrybie Fields. Reconstructions of mining excavations will also be conducted.</p> <p><b>Obtaining new licences</b> The Company planned expenditure for drilling of recognition holes in the Cyców mining area – “34 coke coal” project</p>
Development investments in LW Bogdanka S.A.	<p><b>Maintenance of machinery</b> <b>Purchase and assembly of new machines and devices subject to assembly</b> – in 2021 plans include the purchase of suspended diesel locomotives, plough for floor dinting, air barrages, PWP vibration sifters, cooling equipment, self-propelled drilling and bolting machine, wheeled stations for separators of bottom scraper conveyor.</p> <p><b>Purchases of finished goods (machines and equipment)</b> – planned purchases include: ready-made transportation devices (including tank car for the transport of fuel, carriers for transporting euro-pallets, transport car for long materials, WSD container chassis, transport hoist, mobile), pumps and hydraulic aggregates, electrical devices (including motors, electric equipment, flameproof bay of substation), and other ready-made devices.</p> <p><b>Modernisation of equipment and machinery</b> – plans include modernisation of Scharf diesel locomotives and Bevex suspended locomotives, modernisation of hoists, transformer stations and a BH roadheading machine.</p> <p><b>Upgrades and repairs of machines and equipment and longwall systems</b>– plans cover the repairs of wagons and modernisation of belt conveyor – adjusting transport for people, as well as the repair of panel and under-panel conveyors.</p> <p><b>Longwalls</b> – plans for 2021 include supply of ploughing complex 6 and modernisation of electric equipment for ploughing complex 7.</p> <p><b>Other development investments</b> <b>Enlargement of the mining waste neutralisation facility in Bogdanka</b> – 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.</p> <p><b>Enlargement of the coal storage yard</b>– continuation of works related to the construction of stage 1a - further part, development of design documentation and purchase of land.</p> <p><b>MCCP replacement projects</b> – the project includes modernisation of steel structures and MCCP facades, replacement of jiggling machines and adjustment of bridge as well as construction of drainage pipeline in the Mechanical Coal Processing Plant.</p> <p><b>Construction of facilities on the surface of the Nadrybie, Bogdanka and Stefanów Fields</b> – main portion of expenditure is to be incurred for the upgrade of the central air conditioning system in Stefanów.</p> <p><b>Environment protection</b> – plans include building a pumping station at the RE Żelazny Ditch and making a pumping station at A-46 Ditch in Kobyłki.</p> <p><b>ICT</b> As part of the ICT projects we plan to continue the development of the Integrated Production Management System and the Smart Mine Project.</p> <p><b>Innovation initiatives</b> Plans for 2021 include implementing the IT system for localising transportation means and underground materials movement monitoring, system of rock mass monitoring - photonic technology and implementing the IT system for monitoring mining machinery.</p>
Łęczyńska Energetyka and other subsidiaries LW Bogdanka S.A.	<p><b>Łęczyńska Energetyka</b> – planned expenditure for investments in 2021 is to be used for investments related to production, transmission and distribution of heat. Expenditure for the purchase of material goods were also planned.</p> <p><b>Other subsidiaries of LW Bogdanka S.A.: RG Bogdanka and MR Bogdanka</b> – plan to incur expenditure for the purchase of finished goods.</p>

## 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 2021 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 2020, the Company signed a significant annex to change terms of the agreement with:

- Enea Elektrownia Połaniec S.A., as announced in Current Report No. 10/2020 of 29 May 2020.
- Zakłady Azotowe Puławy S.A., as announced in Current Report No. 34/2020 of 18 November 2020.

## Transactions with related undertakings

In 2020 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 2020 entered into between LW Bogdanka S.A. and its subsidiaries.

In 2020, LW Bogdanka S.A. was bound by a power purchase agreement with Enea S.A. For more information about agreements with the Enea Group and companies controlled by the State Treasury, see Note 30 of the Financial Statements of LW Bogdanka S.A. for 2020.

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

- delivery of casing pipes and connectors
- repair of machines and devices, repair of tools
- delivery of elements of machines, equipment and steel structures
- delivery of casing pipes and connectors
- reinforcement of R-12 flexible palm fork
- repair of transport units of the underground mine railway
- delivery of elements of machines, equipment and steel structures
- repairs of machinery and equipment
- making of SV-36 and SV-32 friction props
- provision of maintenance services, day-to-day repairs, wood shop servicing, snow removal and relocations
- lease of part of the multifunction building (workshops and warehouse),
- weighting fine coal by way of weighting cars with indicated goods on the car scales in Bogdanka
- supply of electrical energy

### 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
- making ID cards

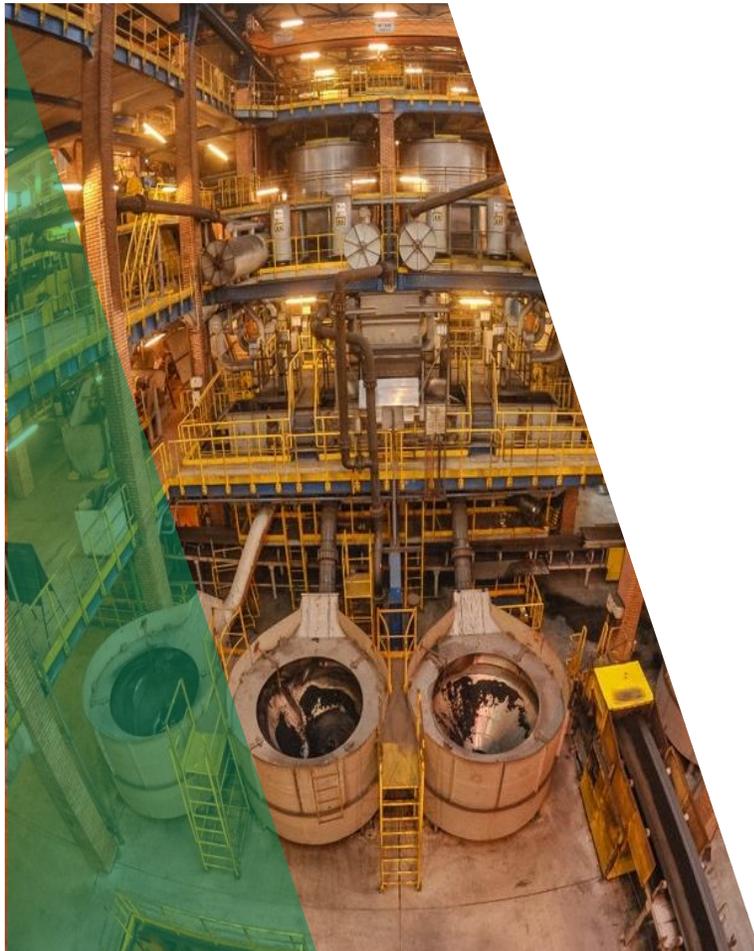
### Agreements between LW Bogdanka S.A. and RG Bogdanka sp. z o.o.

- 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





### Information on financial instruments, bonds

#### Information on derivative financial instruments

As at 31 December 2020, the Group did not hold any open financial instruments.

#### Bonds

As at 31 December 2020 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 2020.

In 2020 total revenue of the Group under lease and rental agreements for land, premises, machines and devices amounted to PLN 9,287,000 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 2020.

**Agreements concerning loans and borrowings**

**Information on loans incurred and granted**

In 2020 the Company did not contract or grant any loans or terminate any agreements concerning loans.

**Information on sureties and guarantees provided and received**

In 2020, LW Bogdanka S.A. did not grant (or receive) any sureties.

**Guarantees granted by LW BOGDANKA S.A.:**

In 2020, LW Bogdanka S.A. did not requested banks to issue any guarantees.

In 2020 LW Bogdanka S.A. had one active loan agreement.

**Agreements concerning the subsidiaries' loans and borrowings**

Łęczyńska Energetyka Sp. z o.o. continues the repayment of the loan (of PLN 26,580,000) granted in accordance with an agreement of 9 June 2014 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. It bears interest of 0.7% of the rediscount rate of bills of exchange set by the Monetary Policy Council, however not less than 4% annually. The loan will be repaid in instalments until 31 July 2024.

Except for the above loan, between 1 January and 31 December 2020 Łęczyńska Energetyka sp. z o.o. did not use any third-party financing for its operations.

In 2020, the subsidiaries: EkoTrans Bogdanka sp. z o.o., RG Bogdanka sp. z o.o. and MR Bogdanka sp. z o.o., granted, taken or terminated no loans or borrowings.

Start date	End date	Lender	Amount of loan granted [PLN '000]	Interest rate	Debt (loans) as at 31 December 2020 [PLN '000]	Repayment period
12 May 2020	12 May 2021	BGK	150,000	WIBOR 1M + margin	-	Overdraft



## Coal prices on the international market

### CIF ARA coal prices

- USD 59.0/tonne - the average coal price (CIF ARA) in Q4 2020, i.e. +3.7% (compared to USD 56.9/tonne in Q4 2019)
- comparing to the average coal price (CIF ARA) in Q3 2020, (USD 50.6/tonne), it's an increase by 16.0%
- average price in 2020 was USD 50.3/tonne, down by 17.3% y/y

### Inventories in ARA ports

- 4.3 million tonnes of coal inventories at the end of December 2020 in ARA ports – as at the end of September 2020 the level was 5.9 million tonnes.

### Prices in the world's main ports

- The average coal price FOB Baltic Ports in Q4 2020 amounted to USD 51.6/tonne, i.e. -2.8% (USD 53.1/tonne) compared to Q4 2019
- comparing to the average price in Q3 2020, (USD 46.0/tonne), it's an increase by 12.2%
- average price in 2020 was USD 47.2/tonne, i.e. down by 17.2% y/y (USD 57.0/tonne)

### China

- approx. 3.6 billion tonnes of coal were produced in 2020, which was similar to 2019
- imports in 2020 were 304.0 million tonnes and were higher by approx. 1.4% compared to 2019 (299.7 million tonnes)

### USA

- production in 2020 – 489.1 million tonnes, -21.9% compared to 2019 (626.1 million tonnes)
- consumption in 2020 amounted to 432.1 million tonnes, -20.1% comparing to 2019 (541.0 million tonnes)
- exports in 2020 – 62.1 million tonnes of hard coal, -27.4% y/y

### Russia

- production in 2020 – 401.0 million tonnes, -9.0% y/y compared to 2019 (440.7 million tonnes)
- exports in 2020 – 193 million tonnes, similarly as in 2019 (192 million tonnes)



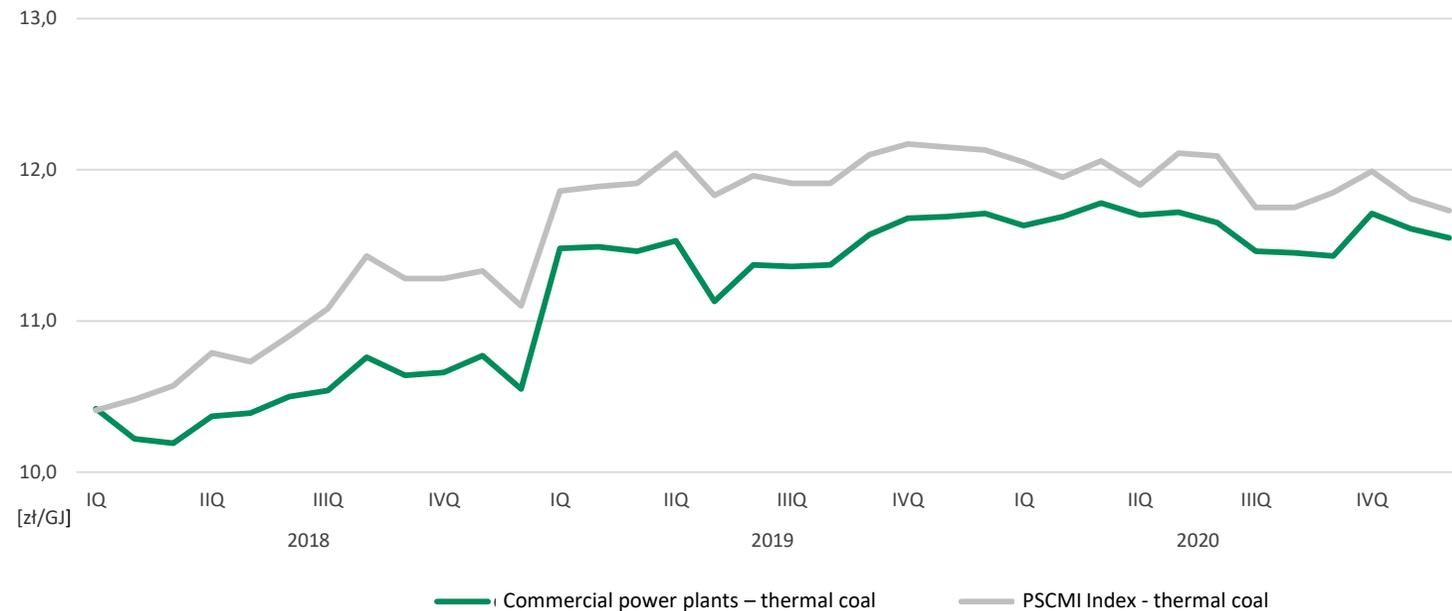
### Fine thermal coal prices in the domestic market

#### Fine thermal coal prices

- in Q4 2020, the average annual price of fine thermal coal for commercial power plants was PLN 11.62 per GJ, the price drops dynamics was ca. 0.6% y/y
- in 2020 (PLN 11.62 per GJ) – up by 1.1% compared to 2019 (PLN 11.49 per GJ)
- average heating value of fine coal for commercial power plants was about 21.6 GJ

#### Prices based on the PSCMI index

- in Q4 2020 the average price based on the PSCMI index was approx. PLN 11.84 per GJ, which compared to average price in Q4 2019 (PLN 12.15 per GJ) represents a decrease by approx. 2.6%
- in 2020 the price stood at the level of PLN 11.92 per GJ, PLN 11.99 per GJ in 2019, down by 0.6%



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

### Production of thermal coal in Poland

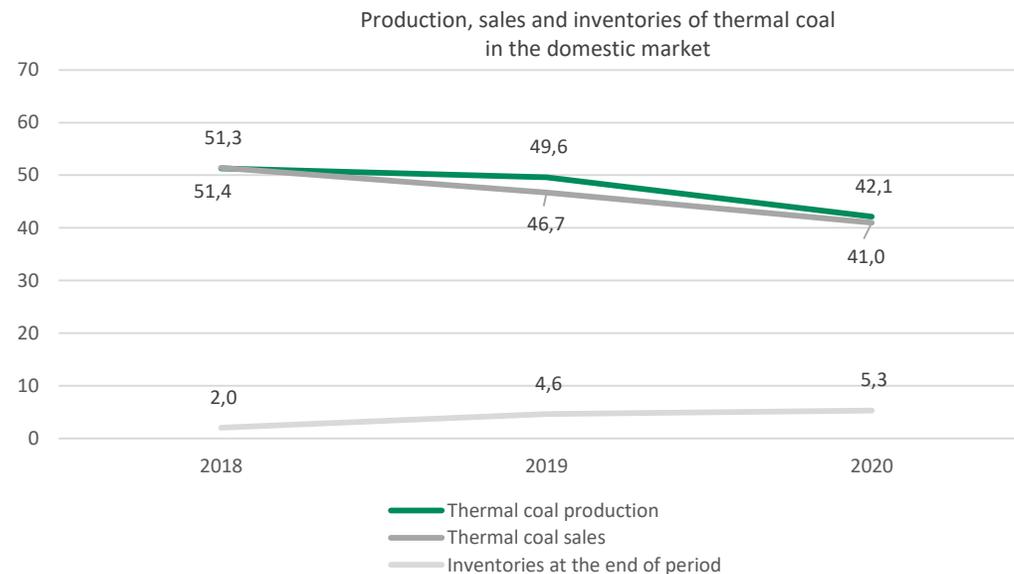
- in 2020, the production of thermal coal amounted to about 42.1 million tonnes, which represents a decline of 15.1% y/y

### Sales of thermal coal market in Poland

- sales in 2020 amounted to about 41.0 million tonnes, including about 26.7 million tonnes of thermal fine coal sold to commercial power plants
- sales of thermal coal decreased by about -12.2% in comparison to 2019

### Inventories of coal in Poland

- the level of thermal coal inventories at the end of 2020 totalled 5.3 million tonnes (at the end of 2019 – 4.6 million tonnes)



## Production, sales and inventories of thermal coal 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 26.7 million tonnes of thermal fine coal. The most important customers from the commercial power industry are as follows:

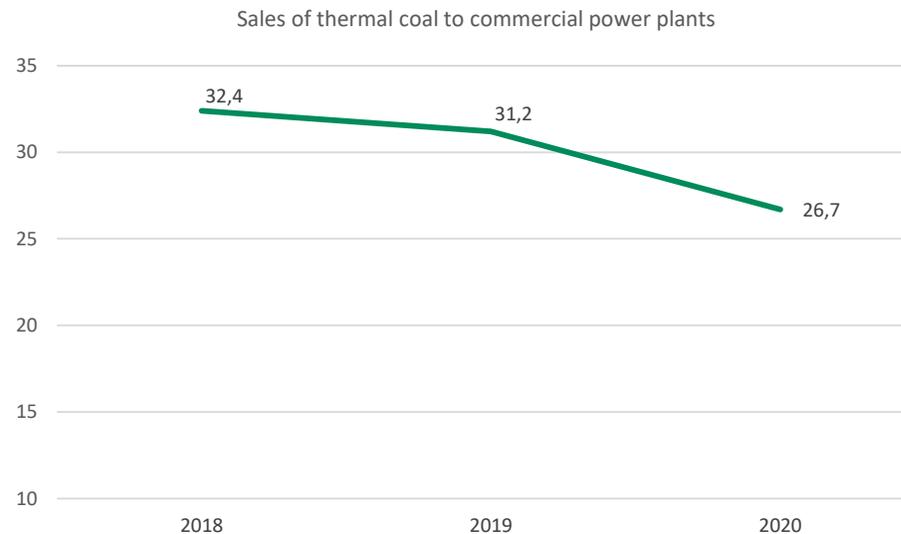
- Tauron
- PGE
- Enea
- PGNiG
- ENERGA

### Sales of thermal coal market in Poland

In 2020, about 41.0 million tonnes of thermal coal were sold in Poland. 40.0 million tonnes of thermal coal were delivered to the domestic market, including 34.9 million tonnes of thermal fine coal.

### Export of coal

About 4.4 million tonnes of coal were exported, including approx. 1.0 million tonnes of thermal coal.



## Power generation in Poland

### Electricity generation – total

In 2020, the production of electricity totalled about 152,308 GWh, which represents a decrease of 6.459 GWh (-4.1%) versus 2019.

### Power generation from coal

Coal was the main fuel used to produce electricity. In 2020 it was used to produce 109,515 GWh, which was a decrease by 10,177 GWh (-8.5%) compared to 2019. In 2020 coal accounted for 71.9% of total electricity production in Poland, but its share in the fuel mix went down by 3.5% in comparison with 2019.

### Power generation from hard coal

In 2020 hard coal was used to produce 71,546 GWh of electricity (almost 8.5% less than in 2019).

### Power generation from lignite

In 2020 lignite was used to produce 37,969 GWh of electricity (8.5% less compared to 2019).

### Power generation by wind farms

Wind farms in 2020 produced 14,174 GWh of electricity, which represents an increase of almost 1.9% in comparison with 2019. Wind made up about 9.3% of electricity production.

### Power generation by gas-fired power stations

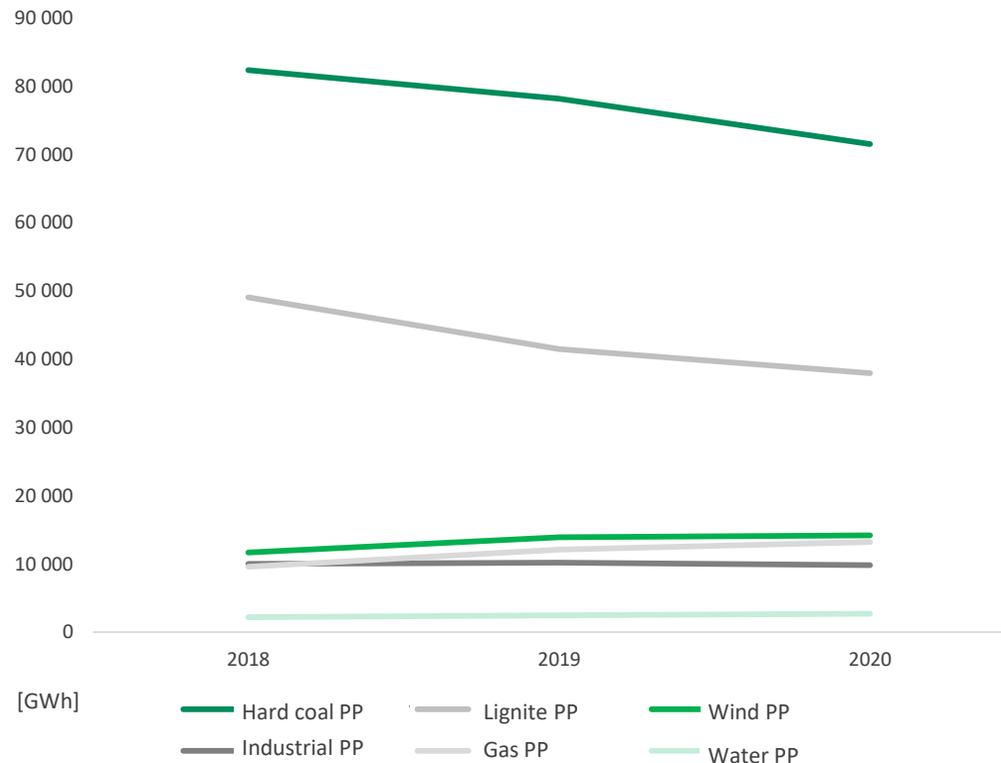
Gas power plants in 2020 produced 13,224 GWh of electricity, which was an increase of 9.3% compared to 2019.

### Electricity consumption on the domestic market

In 2020, the production of electricity totalled about 165,532 GWh, which represents a decrease of 3.859 GWh (-2.3%) versus 2019.

### Foreign sales balance

The balance of foreign exchange of electric power in 2020 was 13,224 GWh, in 2019 the figure was 10,624 GWh (up by 24.5%).



### 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

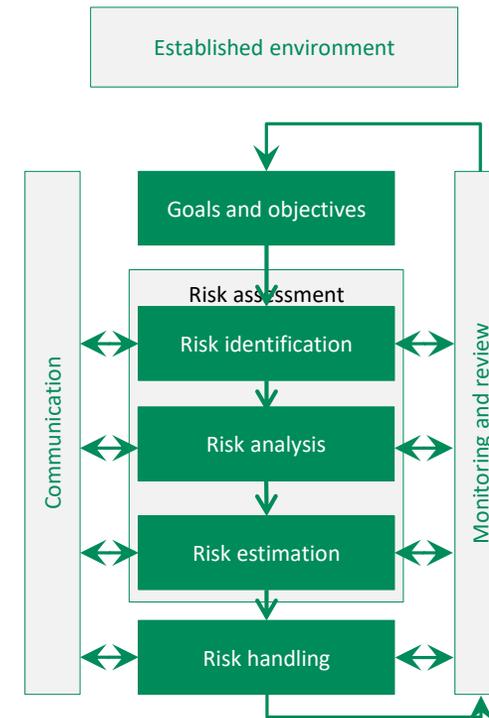
LW Bogdanka S.A., as part of the integration process within the Enea Group and in line with the relevant Group regulations, i.e. the applicable "Secondary Documents", has implemented since January 2018 the ERM system to be applied in the Group companies. As at 31 December 2020 a Parent Risk Register 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.

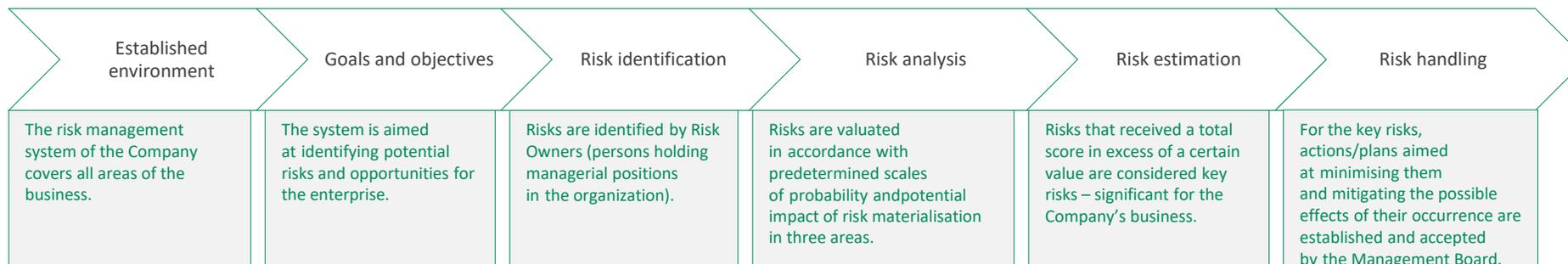
In subsequent periods, the system will be further adapted to the needs of the Group with a view to increasing its role and effectiveness, based on the existing experience and outcome of the system.

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

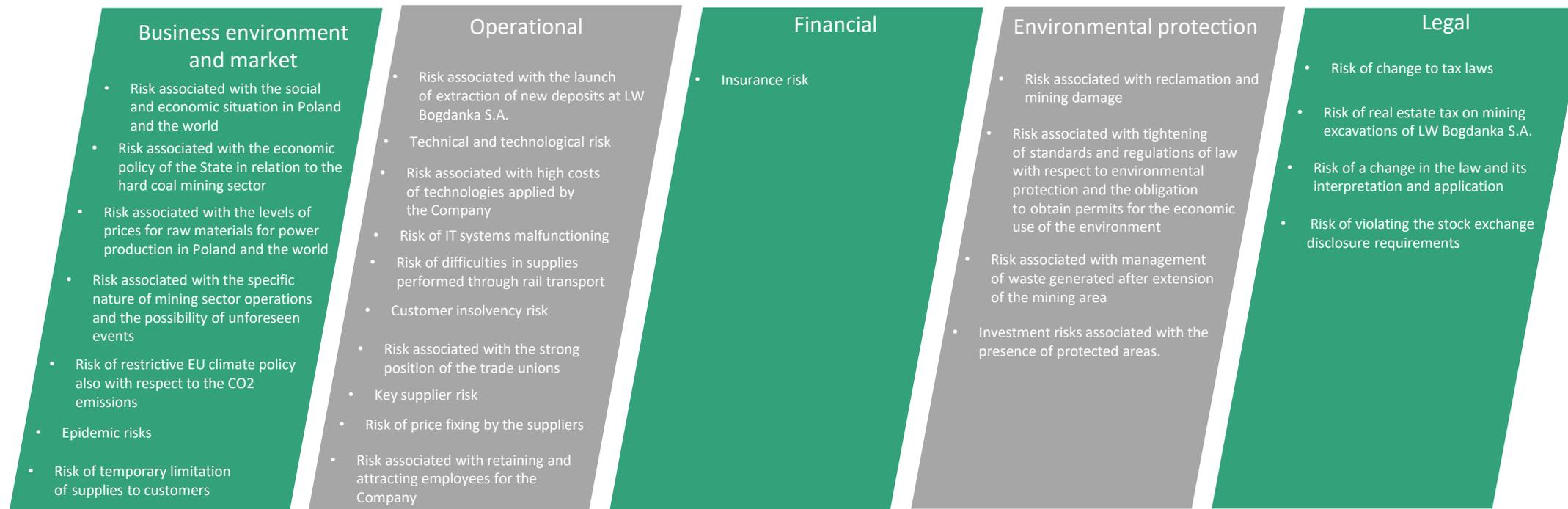
- Supervisory Board
- the Management Board
- the Audit Committee
- Managers of organisational units at the Parent – risk owners
- Risk Management Department



### Risk management process



### Main risks to the Group by category



## 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.:

- directions and rate of changes in domestic and global GDP, including the change in volume of industrial production
- the demand for electricity and heat energy
- development of renewable energy sources
- prices of raw materials on global markets
- balance of exports and imports of coal from and to Poland
- the level of inflation
- the rate of unemployment

Countermeasures: monitoring all factors, adapting the activities to the market situation and business environment, planning future actions, making long-term financial forecasts, controlling costs, entering into long-term agreements, taking actions with a view to improving extraction efficiency.



### 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 the LW Bogdanka Group. On 27 January 2021 a summary was presented of the document: "Poland's 2040 Energy Policy", approved by the Council of Ministers on 2 February 2021. The assumption of the draft is that Polish economy will continue to be based on hard coal, however, due to increased demand for electricity, its share in production structure will decline. The estimated annual share of consumption of hard coal for electricity production will stand at a level of approx. 56% in 2030 assuming a balanced growth of fees for

CO<sub>2</sub> emissions allowances. Poland's energy policy until 2040 also assumes withdrawal from use of coal for individual heating in towns by 2030 and in rural areas by 2040. These assumptions are neutral from the point of view of LWB, hence the production plan levels for the following years should be maintained.



### 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. In the turn of Q3 and Q4 2020 prices on the international markets stabilized, and in Q1 2021 they rose. This increase resulted mainly from weather condition (significant cooling, long-lasting temperatures below zero) and the improvement of the supply and demand situation of the largest customers of imported coal in Europe, which was a consequence of enhanced functioning of countries' economies despite imposed temporary restrictions as a result of the COVID-19 pandemics. Following the growth trend started in 2017, prices stabilised in Q4 2020 on the domestic market of thermal coal. Higher consumption of coal for the production of electricity resulted mainly from weather condition (significant cooling, long-lasting temperatures below zero). Nonetheless, based on data presented by ARP, increased inventories may still be observed in Silesian mines.



### 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 CO<sub>2</sub> emissions. 2019 saw a significant increase in CO<sub>2</sub> prices, which translates directly into an increase in costs of coal burning.

These limitations or introduction of stringent standards or emission limits of CO<sub>2</sub>, SO<sub>x</sub>, NO<sub>x</sub> and other chemical compounds as well as a continuous growth of prices of CO<sub>2</sub> 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

The epidemic of SARS-Cov-2 coronavirus causing the COVID-19 disease has been developing since the beginning of 2020, but arrived to Poland at the beginning of March 2020. The virus itself and the results it brings, together with the results of measures taken by the government for counteracting the epidemic, have affected the condition of the economy both in Poland and globally. For this reason also the activities of the Group have been affected by the current situation. Due to the fact that the abovementioned events intensified as late as at the end of the first quarter 2020, their impact on financial results and the Group's operating activity in Q1 2020 was relatively small. In Q2 and Q3 2020, however, the impact of the coronavirus epidemic was significantly bigger. It is impossible to quantify the exact impact of these events, as the level of sales and Group's operating results are influenced by many more factors apart from COVID-19 nevertheless problems caused by the virus epidemic [decrease in the economic activity in Poland and the related lower demand for electric energy which is followed by a lower production of electric energy and demand for power coal, reduced supplies, materials availability] and the protection measures taken for counteracting virus infection, on one hand result in reducing production and reducing the economy of scale, and on the other – in higher operating costs, which eventually will negatively affect the financial result. This result was particularly visible in the decrease in revenue for the second quarter of 2020 (the decrease largely corresponds to the consequences of the ongoing coronavirus epidemic). In order to mitigate the negative influence of coronavirus on its financial results, the Group took a number of adjusting and optimizing actions. One such action was the

application filed by the Parent with the Provincial Labour Office to be granted financial support from the Guaranteed Employee Benefits Fund ("GEBF") in order to protect jobs (as part of Anti-Crisis Shield 4.0 relief package). The application was accepted and on 6 October 2020 the Parent was informed that it was granted financial support from GEBF amounting to PLN 33.7 million. The financial support was paid in three portions starting October 2020. Further, on 24 November 2020, the Parent filed a supplementary motion for additional financing from GEBF for the purpose of job protection. The information on accepting the application was served to the Parent on 25 November 2020. In the long term, it is assumed that when the epidemic ends the domestic economy will return to regular development, the demand for electric energy will increase which will translate into higher demand for thermal coal mined by the Group. In the long term, it is assumed that when the epidemic ends the domestic economy will return to regular development, the demand for electric energy will increase which will translate into higher demand for thermal coal mined by the Group. It should also be noted that on 29 September the Parent updated production assumptions for 2020 and now expects total annual net output of approx. 7.4 million tonnes. Eventually, the annual extraction was more than 7.6 million tonnes, however this level is lower compared to the expected under standard circumstances and its update was influenced by a number of factors. The significantly reduced demand for thermal coal from the commercial power plants and the heat sector observed in the first half of 2020 was a result of a warm and windy winter as well as decreased economic activity due to the coronavirus pandemic. In Q3 2020, apart from the abovementioned factors, there were also geological and mining circumstances which limited the assumed wall progress and achieved yield levels, such as deforming pressure increment causing limited capacity of longwall workings. These difficulties, combined with staff

shortages stemming from the growing number of COVID-19 infections as well as the obligation to isolate employees who had been in contact with infected persons have resulted in significant limitation of output. It shall be however emphasized that the Parent's Management Board believes the above-described hindrances to be temporary.



### Risk of temporary limitation of supplies to customers

Weather changes in individual years bring changes in the level of 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.

Currently, in relation to the announcement of the new Strategy assuming enriching the present production range by adding 35 coke coal, the Company has applied for obtaining a licence for prospecting for or exploration of deposits in the Lublin Coal Basin.



#### 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:

- infrastructure availability – two lifting shafts,
- transport of the excavated material from the Stefanów Field to the Bogdanka Field by underground excavations,
- system of underground coal storage reservoirs,
- raw coal reservoirs on the surface

- use of advanced mining equipment and machines
- developing solutions minimising the risk of adverse events,
- 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

In 2017-2020 a comprehensive modernisation of railway line No. 7 was carried out in the sections Lublin – Puławy and Dęblin – Pilawa. While line No. 7 was closed, the rail transport to the Parent was directed through alternative routes, via line No. 30 and lines Nos. 66 and 69. The change in routes of the coal transport for the period of the pursued investment caused logistic hindrances resulting not only in lengthening the transport time but also in the necessity to use diesel locomotives. As at the end of 2019, a limited traffic was restarted on one rail towards Warsaw, and, according to the most recent announcement of PKP PLK of 27 August 2020, regarding works on rail line No. 7, as of 30 August 2020 works carried out in the Lublin-Dęblin section have been completed, which allowed traffic in the section to be re-started on both tracks. Bearing the

above in mind, it should be stated that restarting traffic on both tracks on the section of line No. 7 between Lublin and Dęblin significantly minimises potential impact of this risk on the Company.



### 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 6.1% of the carrying amount and 14.7% of its revenue for the last 6 months of 2020. The share of trade receivables in trade and other current receivables accounted for 83.1%.

Countermeasures:

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



#### Risk associated with the strong position of the trade unions

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the end of Q4 2020, six trade union organisations operated at the Group (of which four trade union organisations at LWB associating approx. 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 employees for the Company

The labour market is currently an employee's market, therefore employees can easily change work to a more attractive one. Additionally, in relation to the pursued policy of economy decarbonisation, the mining industry has become little attractive for potential candidates for work. 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. Activities taken with a view to developing managerial skills among the management and supervision officers. 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 last year insurance agreements covering the most material risks expired, therefore in December 2019 insurance coverage was renewed for the next period of three years. As a result of the renewal, 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 consistently 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

The Company creates significant amounts of mining waste. Post-mining waste is managed (recovered) and stored at the mining waste neutralization facility in Bogdanka. It is estimated that the storage capacity of the waste yard, with approx. 50% of mining waste stored, is sufficient only for up to 4 years of storing. On the basis of a building permit, the Company has

commenced works connected with increasing the height of the existing yard (to 250 MASL) and expanding the yard to the south-east. It has also taken 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 south-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
- detailed analysis of all emerging tax issues, including by comparing them 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
- taking steps towards developing and implementing a tax strategy at the Parent, as referred to in Article 27c of the CIT Act.



#### Risk of real estate 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 2020 fiscal proceedings were pending against the Parent in order to determine the amount of real property tax due for the period between 2011-2012 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
- detailed analysis of all emerging tax issues, including by comparing them with the latest tax rulings and relevant case law to the similar extent, using the services of consulting companies.

As at 31 December 2020 almost all taxes payable were settled.

For more information refer to the Consolidated Financial Statements of the LW Bogdanka Group for 2020, Note 18.



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

### Natural risks

The following natural threats occur in the mine:

- Methane hazard



- Water hazard



- Coal dust explosion hazard



- Fire hazard



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

### Technical risks

In 2020, on average 40 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:

- belt and scraper conveyors
- underground locomotives
- suspended diesel rail vehicles
- hydraulic powered lining
- roadheading machines

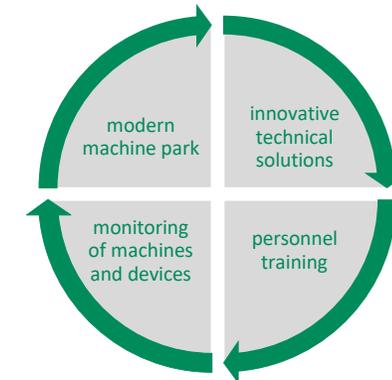
Technical risks and their impact on employees are reduced by:

- replacement of machinery with more advanced machines that ensure greater safety for the employees,
- training in operating machines, facilities and installations requiring appropriate qualifications as well as in operating small mechanisation,
- permanent monitoring technical condition of machinery and equipment,
- introduction of innovative technical solutions, use of machinery and small mechanisation equipment with improved safety standards.

on average **40** 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) and 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
- microclimate

All employees working in conditions which are harmful for the health are provided with information on an on-going basis about threats - harmful and onerous factors occurring in their workplaces. The employer provides the employees with personal protection equipment, adequate for the occurring threats and ensures training regarding correct application of the equipment.

### Work accidents

In 2020, at LW Bogdanka S.A. there were 79 accidents at work, which caused temporary inability to work. The number of accidents and basic accident rates are presented in the table.

In 2020 the frequency rate (per employees) dropped by 16.07%, and the frequency rate (per workdays) dropped by 2%.



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		
2018	894	520	26	338	-	-
2019	449	481	6	271	-	-
<b>2020</b>	<b>743</b>	<b>432</b>	<b>40</b>	<b>385</b>	-	-

Number of accidents and accident rates at the Company in 2018-2020

	2018	2019	2020
Number of accidents – total	102	93	<b>79</b>
including: fatal	-	-	-
including: causing serious injury	1	-	-
frequency rate (per 1,000 employees)	21.4	19.2	<b>16.1</b>
frequency rate (per 100,000 workdays)	9.6	8.4	<b>8.2</b>

### Workforce changes

#### Workforce at the Group

2020 brought a 1.0% increase in employment in the LW Bogdanka Group.

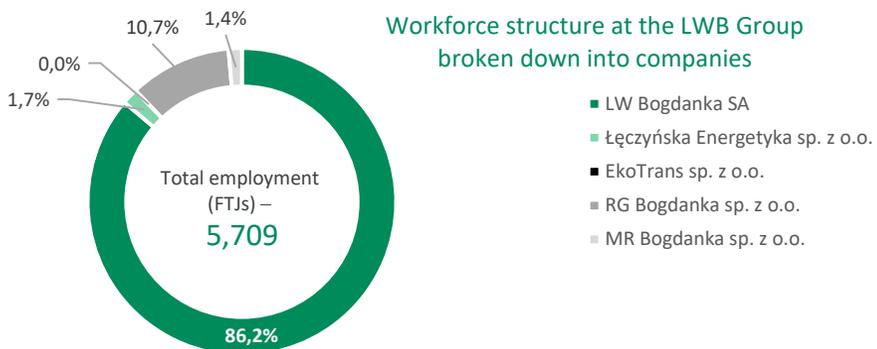
The highest increase in FTJs was recorded in RG Bogdanka sp. z o.o.

Underground personnel constituted the main group employed in the Group, i.e. 72.3%.

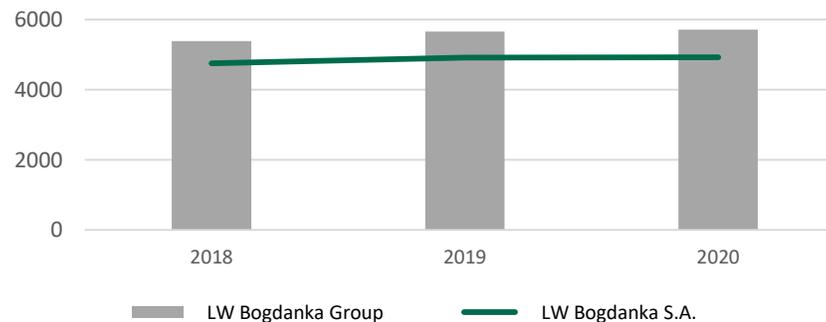
#### Employment in LW Bogdanka S.A.

In 2020 the personnel employed at the Parent accounted for 86.2% of total employment in the LW Bogdanka Group. Blue-collar workers accounted for 83.9% of all LW Bogdanka S.A.'s employees.

In comparison with 2019 the number of underground staff went down by 8.0 FTJs, i.e. 0.2%.



[FTJs as at 31 December]	2018	2019	2020	Structure	Change 2020/2019
LW Bogdanka S.A.	4,749.3	4,916.5	4,922.0	86.2%	0.1%
Łęczyńska Energetyka Sp. z o.o.	97.0	100.0	96.5	1.7%	-3.5%
EkoTrans sp. z o.o.	1.0	1.0	2.0	0.0%	100.0%
RG Bogdanka Sp. z o.o.	318.0	550.6	612.0	10.7%	11.2%
MR Bogdanka Sp. z o.o.	220.4	85.5	76.5	1.4%	-10.5%
<b>LW Bogdanka Group</b>	<b>5,385.7</b>	<b>5,653.6</b>	<b>5,709.0</b>	<b>100%</b>	<b>1.0%</b>

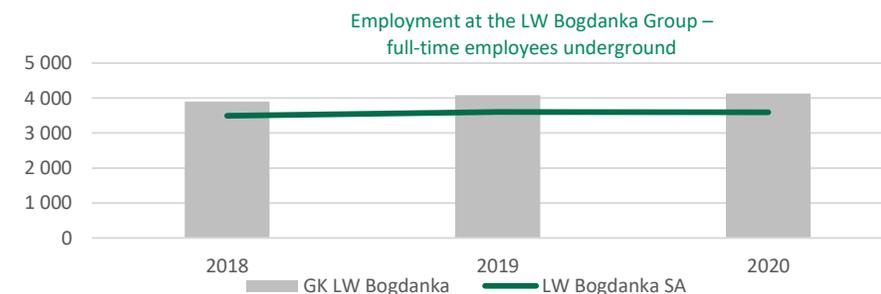
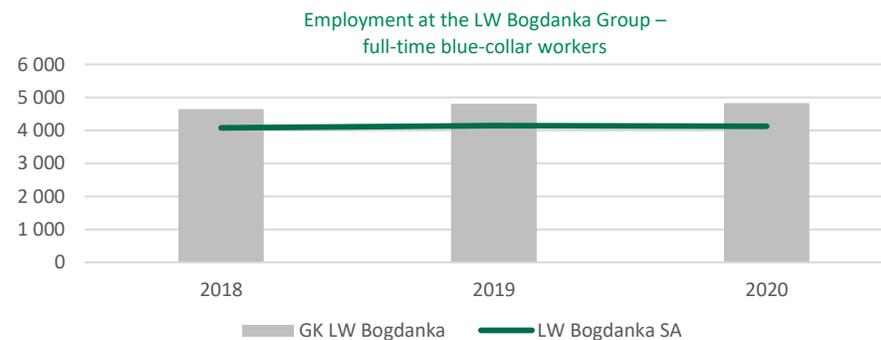
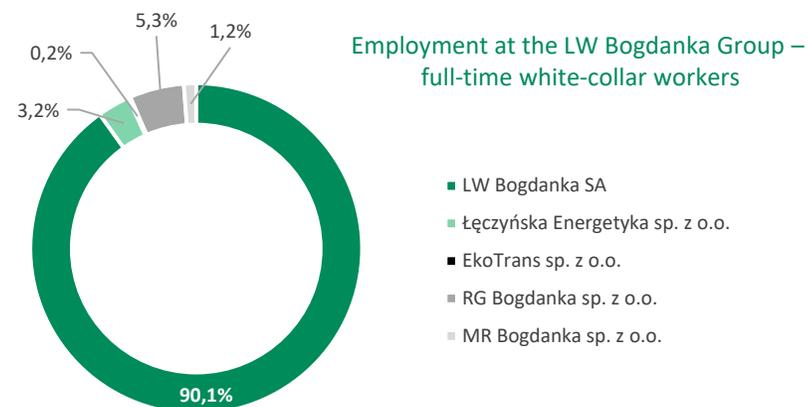


## Workforce changes

[FTJs as at 31 December]	2018	2019	2020	Structure	Change 2020/2019
<b>White-collar workers</b>					
LW Bogdanka S.A.	675.3	769.5	793.0	90.1%	3.1%
Łęczyńska Energetyka Sp. z o.o.	30.0	30.0	28.1	3.2%	-6.3%
EkoTrans sp. z o.o.	1.0	1.0	2.0	0.2%	100.0%
RG Bogdanka Sp. z o.o.	22.0	33.6	47.0	5.3%	39.9%
MR Bogdanka Sp. z o.o.	13.5	11.5	10.5	1.2%	-8.7%
<b>LW Bogdanka Group</b>	<b>741.8</b>	<b>845.6</b>	<b>880.6</b>	<b>100.0%</b>	<b>4.1%</b>

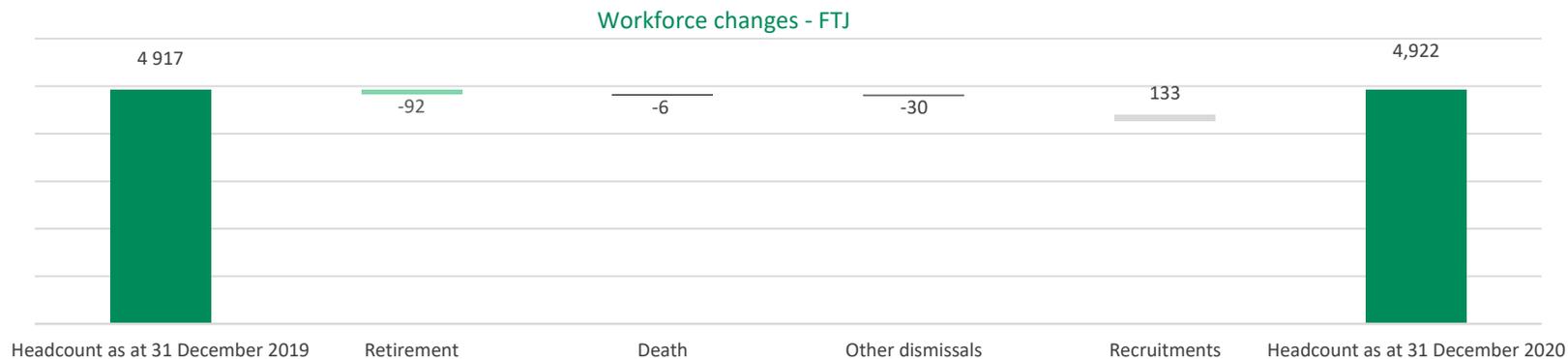
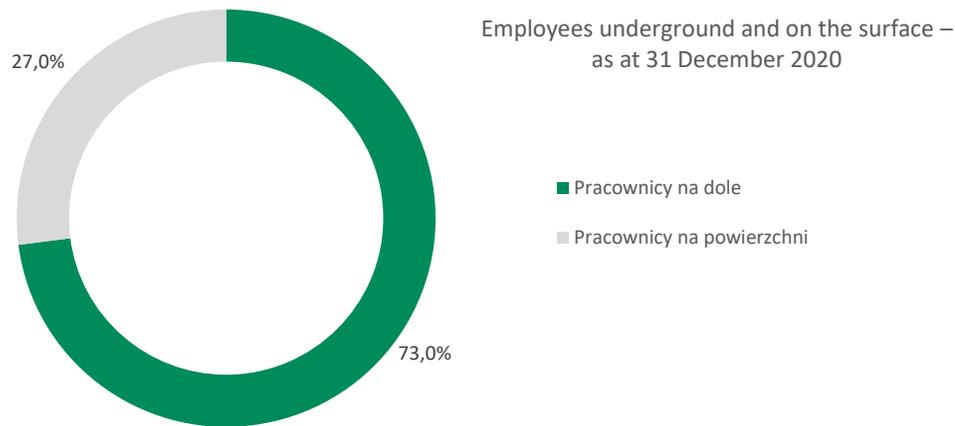
[FTJs as at 31 December]	2018	2019	2020	Structure	Change 2020/2019
<b>Blue-collar workers</b>					
LW Bogdanka S.A.	4,074.0	4 147.0	4,129.0	85.5%	-0.4%
Łęczyńska Energetyka Sp. z o.o.	67.0	70.0	68.4	1.4%	-2.3%
EkoTrans sp. z o.o.	-	-	-	-	-
RG Bogdanka Sp. z o.o.	296.0	517.0	565.0	11.7%	9.3%
MR Bogdanka Sp. z o.o.	206.9	74.0	66.0	1.4%	-10.8%
<b>LW Bogdanka Group</b>	<b>4,643.9</b>	<b>4,808.0</b>	<b>4,828.4</b>	<b>100.0%</b>	<b>0.4%</b>

[FTJs as at 31 December]	2018	2019	2020	Structure	Change 2020/2019
<b>Underground workers</b>					
LW Bogdanka S.A.	3,493.0	3,599.0	3,591.0	87.0%	-0.2%
Łęczyńska Energetyka Sp. z o.o.	-	-	-	-	-
EkoTrans sp. z o.o.	-	-	-	-	-
RG Bogdanka Sp. z o.o.	278.9	485.7	535.1	13.0%	10.2%
MR Bogdanka Sp. z o.o.	131.9	-	-	-	-
<b>LW Bogdanka Group</b>	<b>3,903.8</b>	<b>4,084.7</b>	<b>4,126.1</b>	<b>100.0%</b>	<b>1.0%</b>

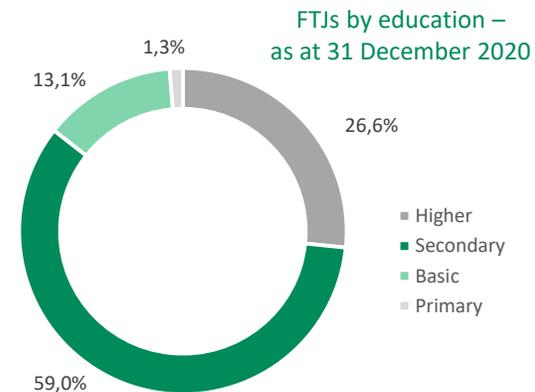
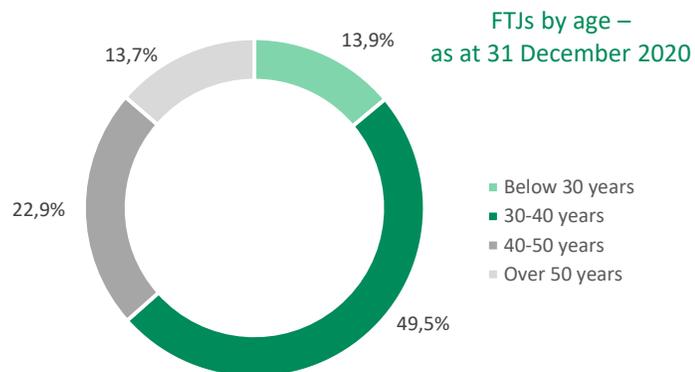
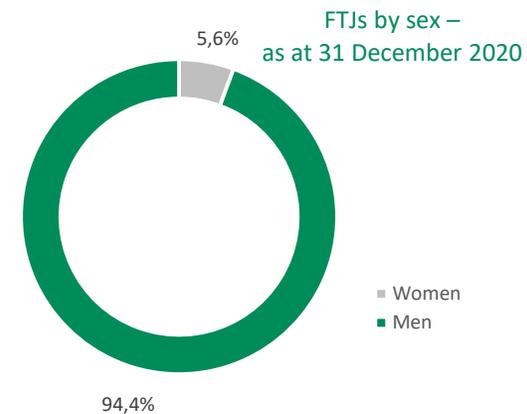
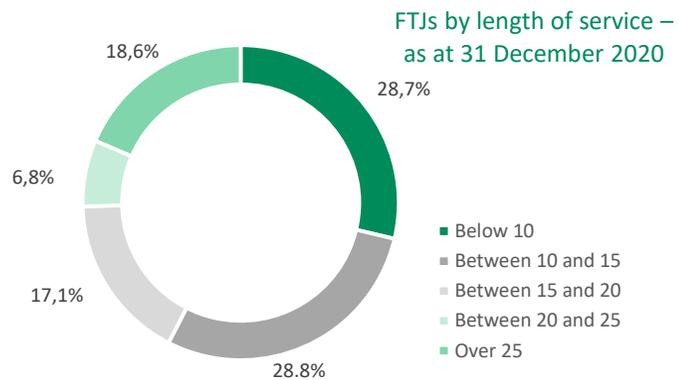


### Workforce changes at LW Bogdanka S.A.

- As at the end of 2020, the Company employed 4,922,0 people, which represents a 0.1% increase compared to 4,916.5 people at the end of 2019.
- underground and surface employees make up 73.0% and 27.0% of the head count, respectively.  
Due to the nature of its business, the Company mainly employs men - they account for 94.4% 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 (49.5%).
- the largest group is made of persons with secondary education. Their share in total employment at the end of December 2020 was 59.0%.
- 2,090 employees (42.5%) 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



### 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 "Solidarność" Independent Self-Governing Trade Union, Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

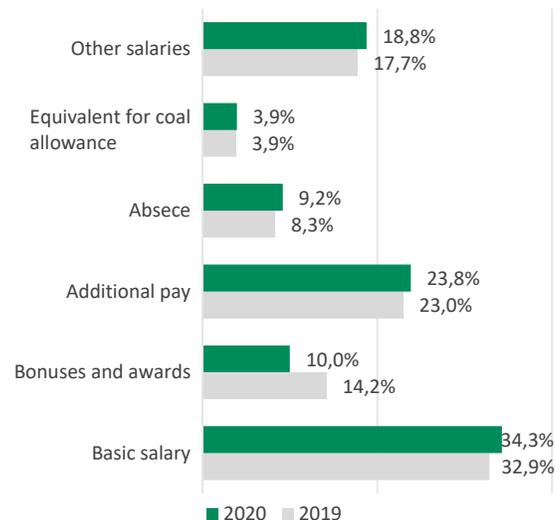
The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including tables of applicable rates, bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others.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

In 2020 the payroll fund was used in accordance with Additional Protocol No. 76 to the Collective Bargaining Agreement which includes an increase in base pay as from 1 March 2020 by 6%;

- agreements on the payment of the first and the second installment of the award for the staff of LW Bogdanka S.A. for disciplined approach in connection with the Covid-19 prevention
- 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 2019 and 2020 at LW Bogdanka S.A.:



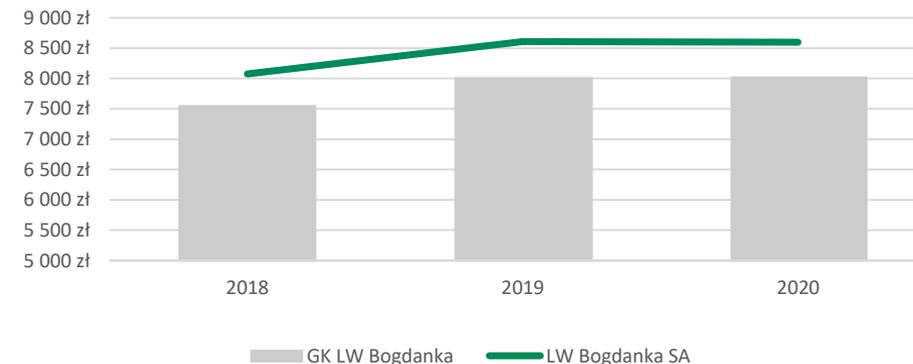
In 2020 the Company's Management Board made all efforts to correlate remunerations with results achieved by the Company and minimising economic results caused by the Covid-19 epidemic. Therefore, in its appreciation for the employees, it paid a special award for 2020 in relation to for disciplined approach in connection with the Covid-19 prevention, which had an impact on the average remuneration figure at the Company. The annual award (gross) paid to the employees was PLN 6.4 million.

In connection with Additional Protocol No. 63 to the Collective Bargaining Agreement which includes an increase in base pay as from 1 March 2020 by 6%, there was an increase in the share of base pay, allowances for work and other remuneration in the whole remunerations fund.

[PLN]	2018	2019	2020	Change 2020/2019
LW Bogdanka S.A.	8,077	8,608	8,597	-0.1%
Łęczyńska Energetyka Sp. z o.o.	4,882	5,026	5,250	4.5%
EkoTrans sp. z o.o.	6,074	6,572	8,042	22.4%
RG Bogdanka Sp. z o.o.	3,520	3,745	4,363	16.5%
MR Bogdanka Sp. z o.o.	3,748	4,473	4,964	11.0%
<b>LW Bogdanka Group*</b>	<b>7,551</b>	<b>8,008</b>	<b>8,019</b>	<b>0.1%</b>

\*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 2018-2020



## Marketing operations

Marketing and sponsorship activities pursued by LW Bogdanka in 2020 were significantly affected by epidemic situation in Poland as a result of detection of the SARS-Cov-2 virus and its dissemination. Limitations and restrictions imposed by the government to a significant extent hindered and reduced marketing activity, and the sponsorship value for 2020 was reduced by PLN 0.7 million.

The Company conducted sponsorship operations based on the document applicable at the Company, namely Sponsorship Strategy for 2018-2021. The document specifies both the goals of these activities and the areas subject to sponsorship.

### Goals and objectives

The objectives of the undertaken marketing and promotional activities include:

- building a positive image of the Company in the Lublin region, in particular in its closest geographic surroundings,
- strengthening the Company's reputation as an active patron of socially important projects and initiatives,
- 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

Sponsorship activities are pursued in the following sub-categories:

**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 2020 the Company completed the total of 12 projects in the field of sports sponsorship, including the key ones:

- Górnik Łęczna S.A. (together with the Górnik Łęczna Foundation) - the club taking part in the Fortuna 1st League matches (advanced in the 2019/2020 season) and running the Sports Academy, teaching more than 500 children from Łęczna and the region of Łęczna in four sport disciplines, and a Sports Championship School (having the status of a secondary school - a secondary school with a football profile), the only school of this kind in the Lublin Province. This entity has historical relationships with the mine, the town and the powiat. The team fans are, in majority, the employees of the LW Bogdanka Group.



- Local motor sports projects, popular and well received on a regional scale, i.e. sponsoring of Motor Lublin, the most popular sports club in the Lublin region with the highest media coverage.



- MKS Avia Świdnik – sponsoring project covering the sponsorship of senior players team (in the Tauron 1. League matches) and training for children and adolescents in a club with long volleyball tradition.



- 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 national level.



### Marketing operations

**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 2020, the Company completed 16 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 once again got involved in a project popularising science, the Lublin Festival of Science.



### Public Relations

The remainder of the promotion budget was used in 2020 for public relations and publicity activities carried out through various communication channels (internet, social media, press, radio, and TV). These activities focused on building social support for the Company's business activities and enabling sponsorship and social projects.

Sponsoring and promotion [PLN '000]	2019	2020
Promotion	691.5	637.3
Sports sponsorship	6,441.5	5,958.0
Social/cultural sponsorship	291.4	183.0
<b>Total</b>	<b>7,424.4</b>	<b>6,778.3</b>





## 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 Audyty 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 Audyty sp. k.) since 16 February 1995 has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 144.

The Group earlier used the services of PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp. k.) and PwC chain entities with respect to: advisory services and preparation of a report regarding an issue prospectus of LWB S.A. shares, published in 2009; review and audit of separate and consolidated financial statements of financial years 2009-2011; advisory

services regarding first-time application of IAS/IFRS; advisory services and audit regarding the scope of budget preparation (2011-2012); workshops on different subjects (2010); legal advisory (2012); tax advisory in 2014-2017 regarding, without limitation, excise tax; and reviewing the correctness of Excise Ratio calculations made by the Parent for 2016, 2017, 2018 and 2019; as well as works related to checking whether the electricity consumption ratio for 2017-2020 was calculated correctly.

The remuneration of the auditor auditing the financial statements (of the Parent and the subsidiaries) as well as for the PricewaterhouseCoopers entities for all services provided in 2020 and 2019 is as follows:

Auditor's fee [PLN '000]	2019	2020
- Audit of the annual financial statements	252	252
- Review of the financial statements	40	40
- review of the Report on remuneration and the XBRL consolidated financial statements	-	62
- Other certification services (review of indicators)	13	26
<b>Total</b>	<b>305</b>	<b>380</b>

### 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 2020 to 31 December 2020 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. The separate and consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

### 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 2020, the Company was not a party to arrangement proceedings.



### 3 Financial standing

## Production, sales and inventories of coal

### LW Bogdanka Group

#### Production, sales of commercial coal of the Company

['000 tonnes]	Q4 2019	Q4 2020	Change	Change %	2019	2020	Change	Change %
Gross coal extraction	3,770	3,307	-463	-12.3%	14,741	11,899	-2,842	-19.3%
Production of commercial coal	2,324	2,074	-250	-10.8%	9,451	7,612	-1,839	-19.5%
Yield (%)	61.6%	62.7%	1.1 p.p.	1.8%	64.1%	64.0%	-0.1 p.p.	-0.2%
Sale of commercial coal	2,298	1,970	-328	-14.3%	9,359	7,670	-1,689	-18.0%
New excavations (km)	7.4	6.1	-1.3	-17.6%	29.1	25.7	-3.4	-11.7%

#### Inventories of commercial coal of the Company

['000 tonnes]	31 Dec. 2019	30 Sep. 2020	31 Dec. 2020	Change [%] 31 Dec. 2020 / 31 Dec. 2019	Change [%] 31 Dec. 2020 / 30 Sep. 2020
Inventories of coal	179	17	122	-31.8%	617.6%

#### Structure of commercial coal production

[%]	Q4 2019	Q4 2020	2019	2020
Fine coal	99.2%	99.3%	99.3%	99.2%
Pea coal	0.8%	0.7%	0.7%	0.8%
Total	100.0%	100.0%	100.0%	100.0%

The lower operating results of the Company for 2020 were mainly influenced by decreased demand for power coal by commercial power plants and the heating sector. In Q1 2020 it stemmed from warm and windy winter, and in Q2 from the decreased demand for power in Poland due to the restrictions implemented in connection with the coronavirus pandemic, which resulted in an economic slowdown. After the slowdown period, the demand for power coal has returned to normal and sales have returned to the levels recorded in previous years. As wall run timetable and deadlines have been altered, the dates of commencement of works on new walls intended for exploitation this year changed, too. As a result, a number of factors limiting the assumed progress on walls and the levels of yield occurred in September. The largest negative impact was brought about by a deforming pressure increment on one of the walls, which limited the operational capacity of longwall workings, hence limiting the progress on that wall. After temporary difficulties, the Company's standard production and sales levels returned to standard ones in Q4.

#### Production of coal

(-) gross extraction of coal in 2020 decreased by 19.3%, i.e. 2,842,000 tonnes

(-) production of commercial coal in 2020 was 7,612,000 tonnes, i.e. less by 19.5% (-1,839,000 tonnes) than in 2019

(-) yield for 2020 was 64.0% compared to 64.1% for 2019

#### Sale of coal

(-) in Q4 2020 the sales of coal dropped by 14.3% compared to Q4 2019

(-) in 2020 the sales of commercial coal amounted to 7,670,000 tonnes, i.e. by 18.0% less than in 2019

(-) drop in demand for coal from customers: warm and windy Q1 2020 and economic downturn in Q2 2020 due to the pandemic

#### Inventories

(-) at the end of 2020, inventories of coal amounted to 122,000 tonnes which means a drop by 57,000 tonnes, compared the level as at 31 December 2019

(+) the level of coal inventories presented at the end of 2020 corresponds approximately to 5 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

The structure of coal production, both in Q4 and the whole 2020, was practically at the same level as in the previous year.

## Revenue and key customers of the LW Bogdanka Group

### Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2019	Q4 2020	Change	Change %	2019	2020	Change	Change %
Sale of coal	519,255	455,357	-63,898	-12.3%	2,109,274	1,775,588	-333,686	-15.8%
Other activities	8,842	10,318	1,476	16.7%	31,111	34,249	3,138	10.1%
Sale of goods and materials	3,652	2,904	-748	-20.5%	17,476	12,275	-5,201	-29.8%
<b>Total</b>	<b>531,749</b>	<b>468,579</b>	<b>-63,170</b>	<b>-11.9%</b>	<b>2,157,861</b>	<b>1,822,112</b>	<b>-335,749</b>	<b>-15.6%</b>

### Structure of revenue

[%]	Q4 2019	Q4 2020	2019	2020
Sale of coal	97.6%	97.2%	97.8%	97.4%
Other activities	1.7%	2.2%	1.4%	1.9%
Sale of goods and materials	0.7%	0.6%	0.8%	0.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Geographical structure of revenue

[PLN '000]	Q4 2019	Structure	Q4 2020	Structure	2019	Structure	2020	Structure
Domestic sales	531,703	100.0%	468,579	100.0%	2,157,778	100.0%	1,822,112	100.0%
Foreign sales	46	0.0%	-	0.0%	83	0.0%	0	0.0%
<b>Total</b>	<b>531,749</b>	<b>100.0%</b>	<b>468,579</b>	<b>100.0%</b>	<b>2,157,861</b>	<b>100.0%</b>	<b>1,822,112</b>	<b>100.0%</b>

### Geographical structure of revenue

The activities of the Group are primarily concentrated in Poland. In 2020 sales of coal abroad (Ukraine) was performed through a coal agent. In 2019 the value of exports in the total revenue was PLN 83,000.

### Revenue

(-) in Q4 2020 the revenue amounted to PLN 468,579,000, which represents a decrease by 11.9% compared to Q4 2019

(-) in the whole 2020 the revenue amounted to PLN 1,822,112,000 compared to PLN 2,157,861,000 in 2019, which means a drop in revenue by 15.6% 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 2020 revenue on other operations (which includes revenue of subsidiaries) were PLN 10,318,000 (2.2% of total revenue), compared to PLN 8,842,000 (1.7% of revenue) in the analogous period of 2019 (up by 16.7% 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 2020 revenue on other operations was PLN 34,249,000 compared to PLN 31,111,000 for the previous year, which represents an increase by 10.1%.

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 partly a result of increasing the regeneration of lining and greater degree of their recovery and lower liquidation of excavations, hence smaller amount of scrap.

### Key customers

Almost 94% of coal sales (in terms of value) in 2020 was effected between to 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 2019 the share of the above customers was similar.

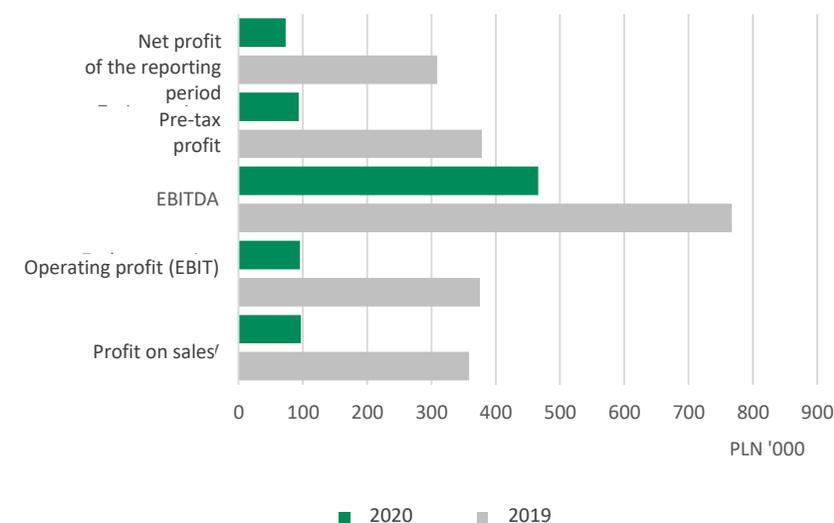
Key customers by share in revenue:

- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 73% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 11% share in the revenue

## Financial highlights of the LW Bogdanka Group

### Analysis of the consolidated income statement

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Revenue	531,749	468,579	-11.9%	2,157,861	1,822,112	-15.6%
Costs of products, goods and materials sold, selling costs and administrative expenses	477,675	420,787	-11.9%	1,799,446	1,725,393	-4.1%
<b>Profit on sales</b>	<b>54,074</b>	<b>47,792</b>	<b>-11.6%</b>	<b>358,415</b>	<b>96,719</b>	<b>-73.0%</b>
Gross sales margin	10.2%	10.2%	0.0 p.p.	16.6%	5.3%	-11.3 p.p.
Other income	1,981	4,624	133.4%	5,267	7,737	46.9%
Other costs	499	532	6.6%	1,212	1,894	56.3%
<b>Net operating profit</b>	<b>55,556</b>	<b>51,884</b>	<b>-6.6%</b>	<b>362,470</b>	<b>102,562</b>	<b>-71.7%</b>
Other profits/(losses) - net	-13	-7,385	-	12,752	-7,321	-
<b>Operating profit (EBIT)</b>	<b>55,543</b>	<b>44,499</b>	<b>-19.9%</b>	<b>375,222</b>	<b>95,241</b>	
EBIT margin	10.4%	9.5%	-0.9 p.p.	17.4%	5.2%	-12.2 p.p.
<b>EBITDA</b>	<b>156,246</b>	<b>148,519</b>	<b>-4.9%</b>	<b>767,592</b>	<b>466,167</b>	<b>-39.3%</b>
EBITDA margin	29.4%	31.7%	2.3 p.p.	35.6%	25.6%	-10.0 p.p.
Finance income	3,927	4,973	26.6%	14,733	7,537	-48.9%
Finance costs	3,410	1,869	-45.2%	11,379	9,588	-15.7%
<b>Profit before taxation</b>	<b>56,060</b>	<b>47,603</b>	<b>-15.1%</b>	<b>378,576</b>	<b>93,190</b>	<b>-75.4%</b>
Pre-tax profit margin	10.5%	10.2%	-0.3 p.p.	17.5%	5.1%	-12.4 p.p.
Income tax	11,268	9,480	-15.9%	69,830	20,228	-71.0%
<b>Net profit</b>	<b>44,792</b>	<b>38,123</b>	<b>-14.9%</b>	<b>308,746</b>	<b>72,962</b>	<b>-76.4%</b>
Net sales margin	8.4%	8.1%	-0.3 p.p.	14.3%	4.0%	-10.3 p.p.



## Financial highlights LW Bogdanka Group

### Revenue

The value of revenue for the Q4 2020 went down by 11.9% compared to the same period of the previous year and amounted to PLN 468,579,000. In the whole 2020 the Group generated revenue in the amount of PLN 1,822,112,000 as compared to PLN 2,157,861,000 in the same period of 2019 (down by 15.6%).

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

In Q4 2020 costs of products, goods and materials sold plus selling costs and administrative expenses amounted to PLN 420,787,000, i.e. they went down by 56,888,000 compared to the same period of the previous year (PLN 477,675,000). In 2020 the cost of products, goods and materials sold as well as selling costs and administrative expenses decreased from PLN 1,799,446,000 to PLN 1,725,393,000.

### Profit on sales

In Q4 2020 profit on sales amounted to PLN 47,792,000, while in the same period of 2019 it amounted to PLN 54,074,000. The Group closed 2020 with a profit on sales in the amount of PLN 96,719,000, versus PLN 358,415,000 in 2019.

### Other income

In Q4 2020 other income amounted to PLN 4,624,000 compared to PLN 1,981,000 a year before. In 2020 other income amounted to PLN 7,737,000 compared to PLN 5,267,000 a year before. Dominant positions in both periods were the returned excise tax and damages received. In addition, in 2020, a release of provision for PEMUG claims in the amount of PLN 4,206,000 was disclosed under other

income.

### Other costs

Other costs in 2020 amounted to PLN 1,894,000 while in 2019 the figure was PLN 1,212,000 – a dominant item in both periods were the received grants.

### Other profits/(losses) - net

In Q4 2020 other net losses amounted to PLN 7,385,000 compared to PLN 13,000 in Q4 2019 - which represents and increase by PLN 7,372,000 (including PLN 6,240,000 of impairment loss of non-current assets).

Other net loss in 2020 amounted to PLN 7,321,000 compared to the profit of PLN 12,752,000 in 2019 (in 2019 the provision for disputable claim of the Social Security Institution (ZUS) was released).

### EBIT

Operating result in Q4 2020 amounted to PLN 44,499,000. EBIT margin in Q4 2020 was 9.5%, i.e. it was lower by 0.9 p.p. than in the fourth quarter of the previous year. EBIT margin for the whole 2020 was lower by 12.2 p.p. compared to the 2019, and accounted for 5.2%.

### EBITDA

EBITDA in Q4 2020 decreased by 4.9% compared to Q4 2019 and amounted to PLN 148,519,000. EBITDA margin in Q4 2020 equalled 31.7%, which shows an increase compared to the same period of 2019. In 2020 the Group achieved an EBITDA margin of 25.6%, i.e. 10.0 p.p. lower than in 2019 (EBITDA amount decreased by 39.3% in the period under analysis). In 2020, EBITDA amounted to PLN 466,167,000, compared to PLN 767,592,000 in 2019.

### Finance income

Finance income in Q4 2020 amounted to PLN 4,973,000 (+26.6%). In the whole 2020 finance

income was PLN 7,253,000 (-48.8% y/y).

The difference in the finance income levels y/y results mainly from the difference between the amount of released provisions for claims in the part concerning interest and lower interest income on funds held.

### Finance costs

In Q4 2020 finance costs were lower than the costs in the same period of 2019, and amounted to PLN 1,869,000. Finance costs for the whole 2020 amounted to PLN 9,588,000 compared to PLN 11,379,000 in 2019 (decrease by 15.7%). As at 31 December 2020 total debt of the Group amounted to PLN 11,008,000, compared the Group's debt of PLN 14,076,000 as at 31 December 2019.

### Profit before taxation

In Q4 2020 the Group recorded pre-tax profit of PLN 47,603,000 compared to the profit of PLN 56,060,000 in Q4 2019. Profit/(loss) before taxation for the whole 2020 amounted to PLN 93,190,000 compared to PLN 378,576,000 in 2019.

### Net profit for the reporting period

In Q4 2020 the Group generated net profit of PLN 38,123,000 compared to PLN 44,792,000 in Q4 2019. The net profit of the Group for 2020 was PLN 72,962,000 compared to PLN 308,746,000 in the previous year.

### Balance sheet of the LW Bogdanka Group

**Balance sheet**

[PLN '000]	31 Dec. 2019	31 Dec. 2020	Change
Total assets	4,252,464	4,375,263	2.9%
Return on Assets (ROA)*	7.5%	1.7%	-5.8 p.p.
Non-current assets	3,509,780	3,763,945	7.2%
Current assets	742,684	611,318	-17.7%
Equity	3,228,502	3,299,827	2.2%
Return on Equity (ROE)*	10.0%	2.2%	-7.8 p.p.
Provisions and liabilities	1,023,962	1,075,436	5.0%

\* the calculations include net result for the last four quarters and an average level of assets and equity (as at 31 December 2020 + as at 31 December 2019)/2

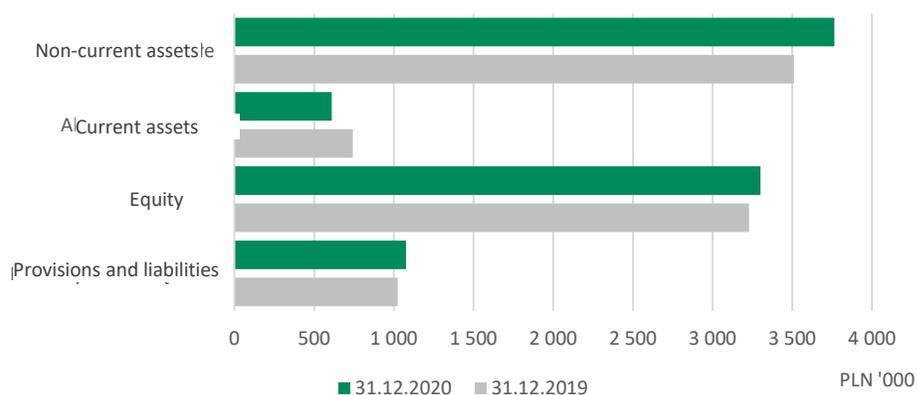
**Assets**

The balance-sheet total as at 31 December 2020 compared to the value as at 31 December 2019 went up by PLN 122,799,000 and amounted to PLN 4,375,263,000, with non-current assets going up by PLN 254,165,000 and current assets going down by PLN 131,366,000. Within current assets, the value of cash went down by 36.9%. As at 31 December 2020 the ROA figure was 1.7%, while as at the end of 2019 it was 7.5%.

**Equity and liabilities**

The equity went up by 2.2%. It was solely an effect of the comprehensive income generated for 2020. Provisions and liabilities went up by 5.0% compared to the value as at 31 December 2019, with current liabilities going down by 3.7% (drop was recorded mainly in provisions for other liabilities and charges), and non-current liabilities going up by 10.0% (including mainly liabilities on account of the employee benefits, liabilities regarding the deferred income tax and provisions for other liabilities and charges as well as liabilities on account of financial lease). At 31 December 2020 a decrease in ROE was recorded (by 7.8 p.p.) compared to the end of 2019. The value of the ratio as at 31 December 2020 was 2.2% compared to 10.0% as at 31 December 2019.

**Analysis of the consolidated statement of financial position**

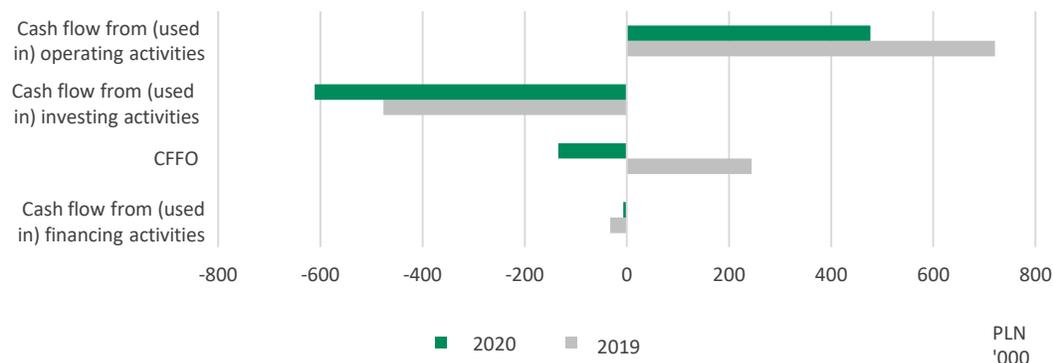


## Cash flow LW Bogdanka Group

### Cash flow

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Cash flow from (used in) operating activities	206,503	77,805	-62.3%	720,977	476,960	-33.8%
Cash flow from (used in) investing activities	-119,767	-172,236	43.8%	-476,533	-611,029	28.2%
<b>CFFO*</b>	<b>86,736</b>	<b>-94,431</b>	-	<b>244,444</b>	<b>-134,069</b>	-
Cash flow from (used in) financing activities	-1,446	-1,615	11.7%	-32,497	-7,061	-78.3%

\*total cash flow from operating and investing activity



In Q4 2020 the Group generated net cash flow from operating activities lower by 62.3% than in Q4 2019 – in 2020 it amounted to PLN 77,805,000 compared to PLN 206,503,000 a year before. During the whole 2020, the LW Bogdanka Group generated cash flow from operating activities in the amount of PLN 476,960,000 (-33.8% y/y), i.e. less by PLN 244,017,000.

Drop in the value of cash flow from operating activities was caused mainly by decreased profit before taxation. The pre-tax profit/loss in the analyzed period of 2020 amounted to PLN 93,190,000, and in the same period of 2019 the figure was PLN 378,576,000, which represents a year-to-year change of PLN -285,386,000.

Cash flow from investing activities increased (in absolute terms) in Q4 2020 by 43.8% (to PLN 172,236,000) compared to the same period in 2019.

Cash flow from investing activities increased its value in 2020 by 28.2% relative to the analogous period of 2017.

In Q4 2020, the Group recorded negative cash flow from financing activities of PLN 1,615,000 (loan of PLN 759,000 was repaid, interest of PLN 250,000 was paid, and liabilities under financial lease agreements were of PLN 1,712,000 were paid).

In 2020, the Group recorded negative cash flow from financing activities of PLN 7,061,000 (loan worth PLN 3,036,000 was repaid, interest of PLN 531,000 was paid, and liabilities under financial lease agreements were of PLN 3,494,000 were paid).

## Debt and liquidity ratios LW Bogdanka Group

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

### Cash flow

[PLN '000]	31 Dec. 2019	31 Dec. 2020	Change
Overall debt ratio	24.1%	24.6%	0.5 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.27	0.49	81.5%
Net debt ratio/EBITDA*	-0.48	-0.49	2.1%
Debt to equity ratio	31.7%	32.6%	0.9 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	105.6%	101.0%	-4.6 p.p.
Current debt ratio (current liabilities/equity and liabilities)	8.8%	8.2%	-0.6 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	15.3%	16.3%	1.0 p.p.

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

	31 Dec. 2019	31 Dec. 2020	Change
Current liquidity ratio	2.13	1.73	-18.8%
Quick liquidity ratio	1.83	1.47	-19.7%

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 2020 went up by 0.5 p.p. compared to 31 December 2019 and reached 24.6% – 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 2020 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 2020 increased by 81.5% to 0.49. When comparing data as at 31 December 2020 to data as at 31 December 2019, a decrease was recorded both in debt and EBITDA (cumulatively for the last four quarters).

### Ratio net debt/EBITDA

The ratio describing net debt (i.e. the total interest-bearing current and non-current liabilities less cash and equivalents) to EBITDA remained at almost the same level as in the previous year. Net debt went up by about PLN 138 million and amounted to PLN -231 million with a decrease in EBITDA by about PLN 301 million (EBITDA calculated cumulatively for the last four quarters).

### Debt to equity ratio

Debt to equity ratio as at 31 December 2020 increased in relation to 31 December 2019 by 0.9 p.p. and was 32.6% - liabilities and provisions grew by ca. PLN 51 million along with an increase in equity by ca. PLN 71 million.

### Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 101.0% (as at 31 December 2020) compared to 105.6% (as at 31 December 2019) – in the analysed period the value of non-current assets increased by approx. PLN 254 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 96 million.

## Turnover ratios at the LW Bogdanka Group

### Turnover ratios

[PLN '000]		31 Dec. 2019	31 Dec. 2020	Change
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	21	23	9.5%
2. Debtors collection rate*	$\frac{\text{average receivables}}{\text{revenue}} \times \text{days in the period}$	37	51	37.8%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times \text{days in the period}$	71	72	1.4%
4. Operating cycle	1+2	58	74	27.6%
5. Cash conversion cycle	4-3	-13	2	-

\* Trade and other receivables

\*\* Trade and other liabilities

### Inventory turnover

The inventory turnover as at 31 December 2020 went up by 2 days to 23 days, compared to 31 December 2019. 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 51 days (as at 31 December 2020), compared to 37 days (as at 31 December 2019). The average receivables grew by approx. PLN 32 million, with the revenue going down by approx. PLN 336 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 2020 got longer by 1 days to ca. 72 days, as compared to the figure as at the end of 2019. In the analysed period the Group had a lower average level of current trade liabilities (by approx. PLN 11 million) with lower costs of products, goods and materials sold (by approx. PLN 73 million).

### Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period lengthened to 74 days. On average after 74 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 2020 was 2 days. The positive value of the cash conversion cycle means that the Group does not use trade credit.

## Provisions of the LW Bogdanka Group

### Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2019	As at 31 Dec. 2020	Change 31.12.2020/ 31 Dec. 2019
Employee provisions	191,965	215,327	12.2%
Provision for real property tax	10,306	-	-100.0%
Provision for the mine closure costs and land reclamation	171,635	212,456	23.8%
Mining damage	2,149	2,579	20.0%
Other	12,237	4,735	-61.3%
<b>Total</b>	<b>388,292</b>	<b>435,097</b>	<b>12.1%</b>

Change in value of employee provisions and the provision of mine closure costs (Mine Closure Fund) results from a change in actuarial assumptions and assumptions regarding the valuation of the provision for the Mine Closure Fund (significant decrease in the discount rate). Provision for real property tax was settled in full in 2020.

### Change in provisions

[PLN '000]	Change Q4 2019	Change Q4 2020	Change Q4 2020/ Q4 2019	Change in 2019	Change in 2020	Change 2020/ 2019
Employee provisions	17,349	8,020	-53.8%	26,809	23,362	-12.9%
Provision for real property tax	-8,944	-10,761	20.3%	-31,125	-10,306	-66.9%
Provision for the mine closure costs and land reclamation	32,844	18,767	-42.9%	47,428	40,821	-13.9%
Mining damage	-349	1,336	-	-1,035	430	-
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-	-	-	-22,658	-	-100.0%
Other	-183	-7,591	4,048.1%	354	-7,502	-
<b>Total</b>	<b>40,717</b>	<b>9,771</b>	<b>-76.0%</b>	<b>19,773</b>	<b>46,805</b>	<b>136.7%</b>

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

[PLN '000]	Change of provisions in 2020	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	23,362	42,968	3,425	-	2,021	-25,052
Provision for real property tax	-10,306	-	-	-	-	-10,306
Provision for the mine closure costs and land reclamation	40,821	6,008	3,690	31,123	-	-
Mining damage	430	1,871	-	-	-	-1,441
Other	-7,502	-6,849	-	-	-	-653
<b>Total</b>	<b>46,805</b>	<b>43,998</b>	<b>7,115</b>	<b>31,123</b>	<b>2,021</b>	<b>-37,452</b>

[PLN '000]	Change in provisions in Q4 2020	Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity – interest	Including: Change disclosed only in the balance sheet – increase in balance-sheet value of property, plant and equipment	Change disclosed in other comprehensive income	Change disclosed only in the balance-sheet – use of the provision
Employee provisions	8,020	11,171	1,026	-	-635	-3,542
Provision for real property tax	-10,761	-	-455	-	-	-10,306
Provision for the mine closure costs and land reclamation	18,767	3,507	1,062	14,198	-	-
Mining damage	1,336	1,871	-	-	-	-535
Other	-7,591	-6,960	-194	-	-	-437
<b>Total</b>	<b>9,771</b>	<b>9,589</b>	<b>1,439</b>	<b>14,198</b>	<b>-635</b>	<b>-14,820</b>

## Revenue and key customers of LW Bogdanka S.A.

### Dynamics of changes in product range with respect to revenue

[PLN '000]	Q4 2019	Q4 2020	Change	Change %	2019	2020	Change	Change %
Sale of coal	521,831	457,871	-63,960	-12.3%	2,116,416	1,781,806	-334,610	-15.8%
Other activities	5,566	6,821	1,255	22.5%	20,701	24,508	3,807	18.4%
Sale of goods and materials	3,621	2,895	-726	-20.0%	17,392	12,229	-5,163	-29.7%
<b>Total</b>	<b>531,018</b>	<b>467,587</b>	<b>-63,431</b>	<b>-11.9%</b>	<b>2,154,509</b>	<b>1,818,543</b>	<b>-335,966</b>	<b>-15.6%</b>

### Structure of revenue

[%]	Q4 2019	Q4 2020	2019	2020
Sale of coal	98.3%	97.9%	98.2%	98.0%
Other activities	1.0%	1.5%	1.0%	1.3%
Sale of goods and materials	0.7%	0.6%	0.8%	0.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Geographical structure of revenue

[PLN '000]	Q4 2019	Structure	Q4 2020	Structure	2019	Structure	2020	Structure
Domestic sales	530,972	100.0%	467,587	100.0%	2,154,426	100.0%	1,818,543	100.0%
Foreign sales	46	0.0%	-	0.0%	83	0.00%	-	0.0%
<b>Total</b>	<b>531,018</b>	<b>100.0%</b>	<b>467,587</b>	<b>100.0%</b>	<b>2,154,509</b>	<b>100.0%</b>	<b>1,818,543</b>	<b>100.0%</b>

### Geographical structure of revenue

The Company operates primarily in Poland. In 2020 sales of coal abroad (Ukraine) was performed through a coal agent. In 2019 the value of exports in the total revenue was PLN 83,000.

### Revenue on sales of coal

(-) in Q4 2020 the revenue amounted to PLN 457,871,000, which represents a decrease by 12.3% compared to Q4 2019

(-) in the whole 2020 the revenue amounted to PLN 1,781,806,000 compared to PLN 2,116,416,000 in 2019, which means a drop in revenue by 15.8% 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 2020 revenue on other operations was PLN 6,821,000 compared to PLN 5,566,000 in the analogous period of 2019 (up by 22.5% 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 2020 revenue on other operations was PLN 24,508,000, which represents an increase by 18.4% than in 2019.

The increase in revenue in this group is related to higher revenue on coal transport under own rail licence.

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 partly a result of increasing the regeneration of lining and greater degree of their recovery and lower liquidation of excavations, hence smaller amount of scrap.

### Key customers

Almost 93% of coal sales (in terms of value) in 2020 was effected between to 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 2019 the share of the above customers was similar.

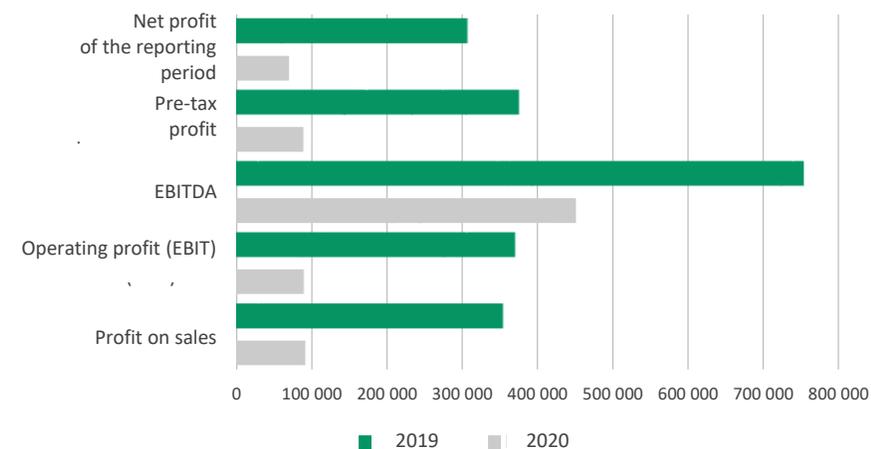
Key customers by share in revenue:

- Enea Wytwarzanie sp. z o.o. – Enea Group – approx. 73% of share in the revenue
- Enea Elektrownia Połaniec S.A. – Enea Group – approx. 11% share in the revenue

## Financial highlights LW Bogdanka S.A.

### Analysis of the income statement

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Revenue	531,018	467,587	-11.9%	2,154,509	1,818,543	-15.6%
Costs of products, goods and materials sold, selling costs and administrative expenses	476,096	420,103	-11.8%	1,801,316	1,726,977	-4.1%
<b>Profit on sales</b>	<b>54,922</b>	<b>47,484</b>	<b>-13.5%</b>	<b>353,193</b>	<b>91,566</b>	<b>-74.1%</b>
Gross sales margin	10.3%	10.2%	-0.1 p.p.	16.4%	5.0%	-11.4 p.p.
Other income	1,838	4,421	140.5%	4,683	7,296	55.8%
Other costs	498	555	11.4%	1,203	1,905	58.4%
<b>Net operating profit</b>	<b>56,262</b>	<b>51,350</b>	<b>-8.7%</b>	<b>356,673</b>	<b>96,957</b>	<b>-72.8%</b>
Other profits/(losses) - net	83	-7,337	-	12,847	-7,273	-
<b>Operating profit (EBIT)</b>	<b>56,345</b>	<b>44,013</b>	<b>-21.9%</b>	<b>369,520</b>	<b>89,684</b>	
EBIT margin	10.6%	9.4%	-1.2 p.p.	17.2%	4.9%	
<b>EBITDA</b>	<b>154,552</b>	<b>145,499</b>	<b>-5.9%</b>	<b>752,135</b>	<b>449,913</b>	
EBITDA margin	29.1%	31.1%	2.0 p.p.	34.9%	24.7%	-10.2 p.p.
Finance income	3,870	4,924	27.2%	15,719	8,342	-46.9%
Finance costs	3,197	1,667	-47.9%	10,617	8,928	-15.0%
<b>Profit before taxation</b>	<b>57,018</b>	<b>47,270</b>	<b>-17.1%</b>	<b>374,622</b>	<b>89,098</b>	
Pre-tax profit margin	10.7%	10.1%	-0.6 p.p.	17.4%	4.9%	-12.5 p.p.
Income tax	11,163	9,235	-17.3%	68,438	19,048	-72.4%
<b>Net profit</b>	<b>45,855</b>	<b>38,035</b>	<b>-17.1%</b>	<b>306,184</b>	<b>70,050</b>	<b>-77.1%</b>
Net sales margin	8.6%	8.1%	-0.5 p.p.	14.2%	3.9%	-10.3 p.p.



## Financial highlights

### LW Bogdanka S.A.

#### Revenue

The value of revenue for the Q4 2020 went down by 11.9% compared to the same period of the previous year and amounted to PLN 467,587,000.

In the whole 2020 the Company generated revenue at a level of PLN 1,818,543,000 compared to PLN 2,154,509,000 in 2019 (down by 15.6%).

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

In Q4 2020 costs of products, goods and materials sold plus selling costs and administrative expenses amounted to PLN 420,103,000, i.e. they went down by 55,993,000 (-11.8%) compared to the same period of the previous year (PLN 476,096,000).

In 2020 the cost of products, goods and materials sold as well as selling costs and administrative expenses stood at a level of PLN 1,726,977,000 which means a decrease by 4.1% compared to 2019 (PLN 1,801,316,000).

#### Profit on sales

In Q4 2020 profit on sales amounted to PLN 47,484,000, while in the same period of 2019 it amounted to PLN 54,922,000.

The Company closed 2020 with a profit on sales in the amount of PLN 91,566,000, versus PLN 353,193,000 in 2019.

#### Other income

In Q4 2020 other income amounted to PLN 4,421,000 compared to PLN 1,838,000 a year before.

In 2020 other income amounted to PLN 7,296,000 compared to PLN 4,683,000 a year before. Dominant positions in both periods were the returned excise tax and damages received.

In addition, in 2020, a release of provision for PEMUG claims in the amount of PLN 4,206,000 was disclosed

under other income.

#### Other costs

Other costs in 2020 amounted to PLN 1,905,000 while in 2019 the figure was PLN 1,203,000 – a dominant item in both periods were the received grants.

#### Other profits/(losses) - net

In Q4 2020 other net losses amounted to PLN 7,337,000 compared to the profit of PLN 83,000 in Q4 2019 (including PLN 6,240,000 of impairment loss of non-current assets).

Other net loss in 2020 amounted to PLN 7,273,000 compared to the profit of PLN 12,847,000 in 2019 (in 2019 the provision for disputable claim of the Social Security Institution (ZUS) was released).

#### EBIT

Operating result in Q4 2020 amounted to PLN 44,013,000. EBIT margin in Q4 2020 was 9.4%, i.e. it was lower by 1.2 p.p. than in the fourth quarter of the previous year.

EBIT margin for the whole 2020 was lower by 12.3 p.p. compared to the 2019, and accounted for 4.9%.

#### EBITDA

EBITDA in Q4 2020 decreased by 5.9% compared to Q4 2019 and amounted to PLN 145,499,000.

EBITDA margin in Q4 2020 equalled 31.1%, which shows an increase by 2.0 p.p. compared to the same period of 2019.

In 2020 the Company achieved an EBITDA margin of 24.7%, i.e. 10.2 p.p. lower than in 2019 (EBITDA amount decreased by 40.2% in the period under analysis). In 2020, EBITDA amounted to PLN 449,913,000, compared to PLN 752,135,000 in 2019.

#### Finance income

Finance income in Q4 2020 amounted to PLN 4,924,000 (+27.2% y/y). In the whole 2020 finance income was PLN 8,342,000 (-46.9% y/y).

The difference in the finance income levels y/y results mainly from the difference between the amount of released provisions for claims in the part concerning interest and lower interest income on funds held.

#### Finance costs

In Q4 2020 finance costs were lower than the costs in the same period of 2019, and amounted to PLN 1,667,000. Finance costs for the whole 2020 amounted to PLN 8,928,000 compared to PLN 10,617,000 in 2019 (decrease by 15.9%).

As at 31 December 2020, the Company did not hold any interest-bearing debt.

#### Profit before taxation

In Q4 2020 the Company generated pre-tax profit of PLN 47,270,000 compared to PLN 57,018,000 in Q4 2019.

Profit/(loss) before taxation for the whole 2020 amounted to PLN 89,098,000 against PLN 374,622,000 in 2019.

#### Net profit for the reporting period

In Q4 2020 the Company generated net profit of PLN 38,035,000 compared to PLN 45,855,000 in Q4 2019. The net profit of the Company for 2020 was PLN 70,050,000 compared to PLN 306,184,000 in the previous year.

## Balance sheet of LW Bogdanka S.A.

### Balance sheet

[PLN '000]	31 Dec. 2019	31 Dec. 2020	Change
Total assets	4,208,383	4,328,189	2.8%
Return on Assets (ROA)*	7.6%	1.6%	-6.0 p.p.
Non-current assets	3,485,102	3,746,322	7.5%
Current assets	723,281	581,867	-19.6%
Equity	3,206,870	3,275,367	2.1%
Return on Equity (ROE)*	10.0%	2.2%	-7.8 p.p.
Provisions and liabilities	1,001,513	1,052,822	5.1%

\* the calculations include net result for the last four quarters and an average level of assets and equity (as at 31 December 2020 + as at 31 December 2019)/2

### Assets

The balance-sheet total as at 31 December 2020 went up to PLN 4,328,189,000 (i.e. increased by PLN 119,806,000) compared to the value as at 31 December 2019, with non-current assets going up by PLN 261,220,000 and current assets going down by PLN 141,414,000. In non-current assets, an increase was recorded in property, plant and equipment (+7.9%), right-to-use assets (+45.9%) as well as cash and cash equivalents (+5.7%). In current assets, a drop was recorded in inventories (-13.3%) as well as cash and cash equivalents (-40.9%). As at 31 December 2020 the ROA figure was 1.6%, while as at the end of 2019 it was 7.6%.

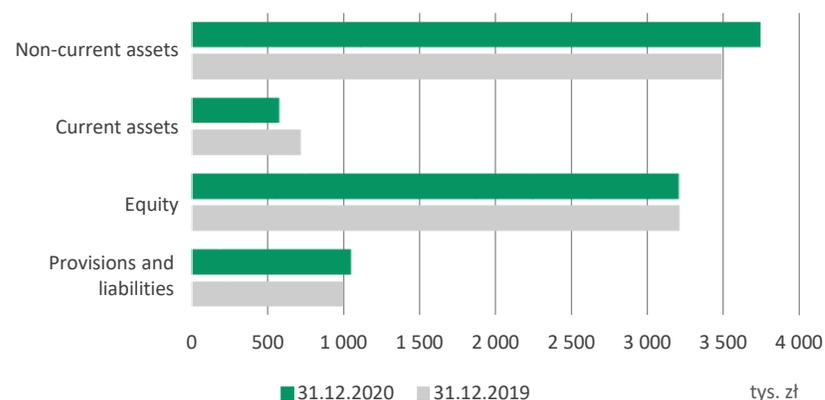
### Equity and liabilities

The equity went up by 2.1%. It was an effect of the comprehensive income generated for 2020.

Provisions and liabilities went up by 5.1% compared to the value as at 31 December 2019, with current liabilities going down by 4.5% (drop was recorded mainly in provisions for other liabilities and charges), and non-current liabilities going up by 10.7% (including primarily increase in liabilities regarding the deferred income tax, liabilities on account of the employee benefits and provisions for other liabilities and charges).

At 31 December 2020 a decrease in ROE was recorded (by 7.8 p.p.) compared to the end of 2019. The value of the ratio as at 31 December 2020 was 2.2% compared to 10.0% as at 31 December 2019.

### Analysis of the separate statement of financial position



## Cash flow

### LW Bogdanka S.A.

#### Cash flow

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Cash flow from (used in) operating activities	206,545	75,524	-63.4%	699,937	455,888	-34.9%
Cash flow from (used in) investing activities	-114,525	-169,910	48.4%	-458,851	-602,609	31.3%
<b>CFFO*</b>	<b>92,020</b>	<b>-94,386</b>	-	<b>241,086</b>	<b>-146,721</b>	-
Cash flow from (used in) financing activities	-528	-729	38.1%	-28,709	-3,396	-88.2%

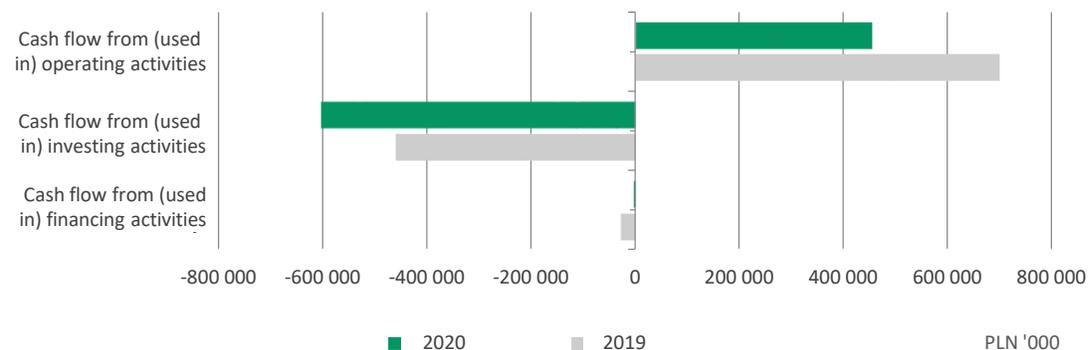
\*total cash flow from operating and investing activity

In Q4 2020 the Company generated net cash flow from operating activities lower by 63.4% than in Q4 2019 – in Q4 2020 it amounted to PLN 75,524,000 compared to PLN 206,545,000 a year before. In 2020, the Company generated cash flow from operating activities in the amount of PLN 455,888,000 (-34.9% y/y).

Cash flow from investing activities increased its value (in absolute values) in Q4 2020 by 48.4% (to PLN 169,910,000) relative to the analogous period of 2019. Cumulative for 12 months of 2020 cash flow from investing activity was lower by 31.3% from cash flow from the analogous period last year.

In Q4 2020, the Company recorded negative cash flow from financing activities of PLN 729,000 (resulting from payments of liabilities under financial lease agreements). In the whole 2020, the Company also generated negative cash flows from financing activities of PLN 3,396,000 (regarding payments under financial lease agreements in the amount of PLN 3,396,000).

#### Analysis of Cash Flows



## Debt and liquidity ratios LW Bogdanka S.A.

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

### Cash flow

[PLN '000]	31 Dec. 2019	31 Dec. 2020	Change
Overall debt ratio	23.8%	24.3%	0.5 p.p.
Ratio (debt plus employee liabilities)/EBITDA	0.25	0.47	88.0%
Net debt ratio/EBITDA*	-0.49	-0.48	-2.0%
Debt to equity ratio	31.2%	32.1%	0.9 p.p.
Fixed capital to non-current assets ratio (non-current assets/fixed capital)	105.3%	100.5%	-4.8 p.p.
Current debt ratio (current liabilities/equity and liabilities)	8.8%	8.1%	-0.7 p.p.
Non-current debt ratio (non-current liabilities/equity and liabilities)	15.0%	16.2%	1.2 p.p.

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

	31 Dec. 2019	31 Dec. 2020	Change
Current liquidity ratio	2.10	1.69	-19.5%
Quick liquidity ratio	1.81	1.43	-21.0%

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

### Overall debt ratio

The overall debt ratio as at 31 December 2020 went up by 0.5 p.p. compared to 31 December 2019 and was 24.3% – 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 2020 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 2020 increased by 88.0% to 0.47. When comparing data as at 31 December 2020 to data as at 31 December 2019, a decrease was recorded in EBITDA (cumulatively for the last four quarters), while to the level of debt grew.

### Ratio net debt/EBITDA

The ratio describing net debt (i.e. the total interest-bearing current and non-current liabilities less cash and equivalents) to EBITDA remained at almost the same level as in the previous year. Net debt went down by about PLN 150 million and amounted to PLN -217 million with a decrease in EBITDA by about PLN 302 million (EBITDA calculated cumulatively for the last four quarters).

### Debt to equity ratio

Debt to equity ratio as at 31 December 2020 increased in relation to 31 December 2019 by 0.9 p.p. and was 32.1% - liabilities went up by ca. PLN 51 million along with an increase in equity by ca. PLN 68 million.

### Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 100.5% (as at 31 December 2020) compared to 105.3% (as at 31 December 2019) – in the analysed period the value of non-current assets increased by approx. PLN 261 million and fixed capitals (equity plus non-current liabilities less provisions), by approx. PLN 95 million.

## Turnover ratios at LW Bogdanka S.A.

### Turnover ratios

[PLN '000]

			31 Dec. 2019	31 Dec. 2020	Change
1. Inventory turnover	$\frac{\text{average inventories}}{\text{costs of goods, products and materials sold}} \times$	days in the period	18	22	22.2%
2. Debtors collection rate*	$\frac{\text{average receivables}}{\text{revenue}} \times$	days in the period	38	51	34.2%
3. Creditors payment rate**	$\frac{\text{average liabilities}}{\text{costs of goods, products and materials sold}} \times$	days in the period	69	72	4.3%
4. Operating cycle	1+2		56	73	30.4%
5. Cash conversion cycle	4-3		-13	1	-

\* Trade and other receivables

\*\* Trade and other liabilities

### Inventory turnover

The inventory turnover as at 31 December 2020 went up by 2 days to 22 days, compared to 31 December 2019. 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 51 days (as at 31 December 2020), compared to 38 days in 2019. The increase 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 2020 got longer by 3 days to ca. 72 days, as compared to the figure as at the end of 2019. In the analysed period the Group had a lower average level of current trade liabilities (by approx. PLN 4 million) with lower costs of products, goods and materials sold (by approx. PLN 73 million).

### Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period got longer to 73 days. On average after 73 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 2020 was 1 day. The positive value of the cash conversion cycle means that the Company does not use trade credit.



## Provisions of LW Bogdanka S.A.

### Balance-sheet provisions

[PLN '000]	As at 31 Dec. 2019	As at 31 Dec. 2020	Change 2020/2019
Employee provisions	187,230	209,580	11.90%
Provision for real property tax	10,306	-	-100.00%
Provision for the mine closure costs and land reclamation	171,635	212,456	23.80%
Mining damage	2,149	2,579	20.00%
Other	12,208	4,487	-63.20%
<b>Total</b>	<b>383,528</b>	<b>429,102</b>	<b>11.90%</b>

Change in value of employee provisions and the provision of mine closure costs (Mine Closure Fund) results from a change in actuarial assumptions and assumptions regarding the valuation of the provision for the Mine Closure Fund (significant decrease in the discount rate). Provision for real property tax was settled in full in 2020.

### Change in provisions

[PLN '000]	Change Q4 2019	Change Q4 2020	Change Q4 2020/Q4 2019	Change in 2019	Change in 2020	Change 2020/2019
Employee provisions	18,040	9,724	-46.1%	25,495	22,350	-12.3%
Provision for real property tax	-8,944	-10,761	20.3%	-31,125	-10,306	-66.9%
Provision for the mine closure costs and land reclamation	32,844	18,767	-42.9%	47,428	40,821	-13.9%
Mining damage	-349	1,336	-	-1,035	430	-
Provision for Social Insurance Institution (ZUS) claim for accident contributions	-	-	-	-22,658	-	-100.0%
Other	-118	-7,555	6,302.5%	350	-7,721	-
<b>Total</b>	<b>41,473</b>	<b>11,511</b>	<b>-72.2%</b>	<b>18,455</b>	<b>45,574</b>	<b>146.9%</b>

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

[PLN '000]	Change of provisions in 2020	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	22,350	41,229	3,357	-	1,917	-24,153
Provision for real property tax	-10,306	-	-	-	-	-10,306
Provision for the mine closure costs and land reclamation	40,821	6,008	3,690	31,123	-	-
Mining damage	430	1,871	-	-	-	-1441
Other	-7,721	-7,097	-	-	-	-624
<b>Total</b>	<b>45,574</b>	<b>42,011</b>	<b>7,047</b>	<b>31,123</b>	<b>1,917</b>	<b>-36,524</b>

[PLN '000]	Change of provisions in Q4 2020	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	9,724	12,636	958	-	-739	-3,131
Provision for real property tax	-10,761	-	-455	-	-	-10,306
Provision for the mine closure costs and land reclamation	18,767	3,507	1,062	14,198	-	-
Mining damage	1,336	1,871	-	-	-	-535
Other	-7,555	-6,953	-194	-	-	-408
<b>Total</b>	<b>11,511</b>	<b>11,061</b>	<b>1,371</b>	<b>14,198</b>	<b>-739</b>	<b>-14,380</b>

## Costs of LW Bogdanka S.A.

## Costs by type

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Net production ['000 tonnes]	2,324	2,074	-10.8%	9,451	7,612	-19.5%
Sales ['000 tonnes]	2,298	1,970	-14.3%	9,359	7,670	-18.0%
Depreciation/amortisation	98,427	94,409	-4.1%	382,865	353,990	-7.5%
Materials and energy consumption	135,182	134,967	-0.2%	515,706	501,940	-2.7%
Outsourced services	130,679	122,914	-5.9%	522,308	462,016	-11.5%
Employee benefits	231,522	229,712	-0.8%	648,858	651,888	0.5%
Entertainment and advertising costs	1,576	1,344	-14.7%	8,003	7,804	-2.5%
Taxes, fees and charges	7,099	17,370	144.7%	48,325	52,802	9.3%
Other costs	20,020	606	-97.0%	22,281	2,394	-89.3%
<b>Total costs by type</b>	<b>624,505</b>	<b>601,322</b>	<b>-3.7%</b>	<b>2,148,346</b>	<b>2,032,834</b>	<b>-5.4%</b>
Cost of own work	-81,911	-60,439	-26.2%	-307,294	-279,952	-8.9%
Accruals and deferrals	-75,615	-76,141	0.7%	-9,031	1,104	-
Value of coal obtained from excavations	-15,965	-14,361	-10.0%	-81,848	-55,071	-32.7%
Provisions and other presentation adjustments between costs by type and by function	26,537	-11,398	-	49,268	9,850	-80.0%
<b>Total production cost</b>	<b>477,551</b>	<b>438,983</b>	<b>-8.1%</b>	<b>1,799,441</b>	<b>1,708,765</b>	<b>-5.0%</b>
Change in products	-4,889	-21,436	338.5%	-15,330	6,324	-
Costs of goods and materials sold	3,434	2,556	-25.6%	17,205	11,888	-30.9%
<b>Own cost of sales, including:</b>	<b>476,096</b>	<b>420,103</b>	<b>-11.8%</b>	<b>1,801,316</b>	<b>1,726,977</b>	<b>-4.1%</b>
Costs of products, goods and materials sold	433,614	382,928	-11.7%	1,647,132	1,574,215	-4.4%
Selling costs	9,702	7,428	-23.4%	37,988	31,886	-16.1%
Administrative expenses	32,780	29,747	-9.3%	116,196	120,876	4.0%

## Q4 2020

In Q4 2020 costs by type incurred by LW Bogdanka S.A. amounted to PLN 601,322,000 (PLN -23,183,000 y/y), which means that they were lower by 3.7% than in Q4 2019.

The drop in costs in Q4 2020 was mainly due to lower value of outsourced services and other costs with a concurrent increase in costs, taxes and charges.

The value of depreciation and amortisation went down by 4.1% (to PLN 94,409,000) – the value of natural depreciation current assets fell (PLN -8.2 million) and depreciation of non-current assets grew (PLN +4.1 million).

Total cost of materials and energy consumption went down by 0.2% compared to Q4 2019, and totalled PLN 134,967,000. In the period under analysis mainly the value of materials used dropped (PLN -6.2 million) with the costs of energy consumption going up (PLN +6.0 million).

The value of outsourced services in Q4 2020 went down from PLN 130,679,000 in Q4 2019 to PLN 122,914,000 (-5.9%). In the period under analysis, the Company recorded decreases in services related to drilling and redevelopment of excavations (PLN -18.9 million), rail coal transport (PLN -1.2 million) and other outsourced services (PLN -1.4 million). An increase was recorded in mining & drilling and excavation works on working days and on Sundays and holidays (PLN +7.7 million), auxiliary works (PLN +4.9 million) and repair services (PLN +1.0 million).

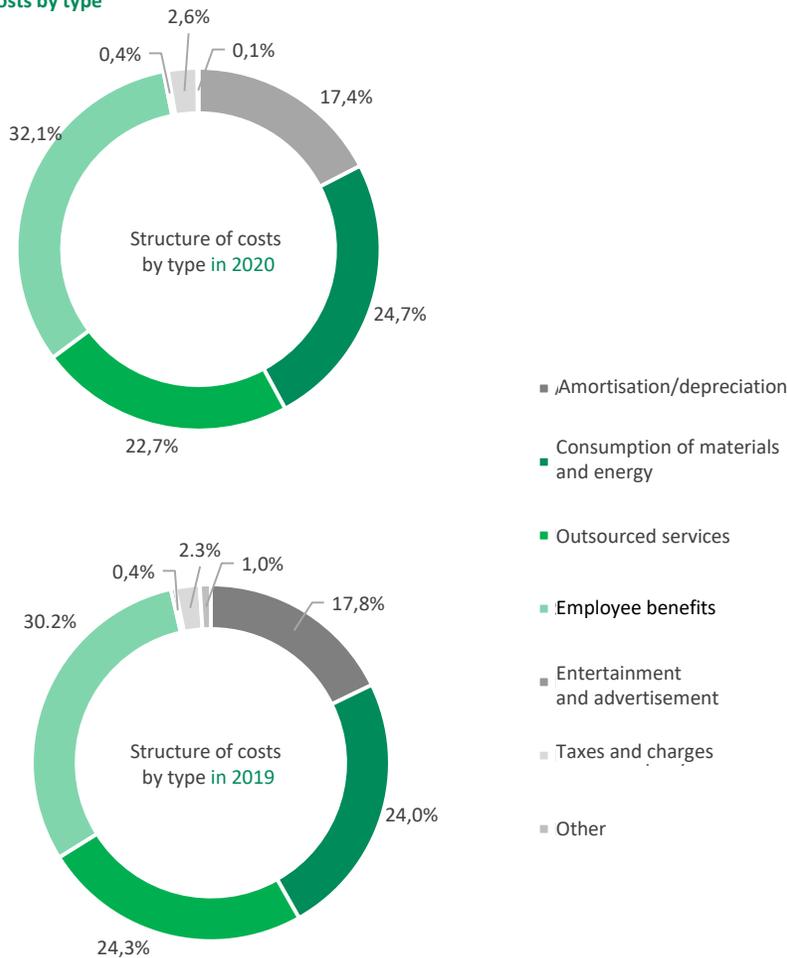
In Q4 2020, compared to Q4 2019, the value of employee benefits decreased by PLN 1,810,000. This is a consequence of a decrease in remunerations (PLN -2.6 million) – some employees took advantage of benefits introduced by virtue of provisions regarding the anti-crisis shield in relation to the pandemic. At the same time, average employment y/y in LW Bogdanka S.A. increased by approx. 86 people. The drop in entertainment and advertising costs in Q4 2020 compared to Q4 2019 is a result of lower spending on advertising.

In the period under analysis, the value of taxes, fees and charges went up from PLN 7,099,000 in Q4 2019 to PLN 17,370,000 in Q4 2020. This is a result of settlement of real property tax payable in relation with the obtained decisions (settlement with a previously created provision, therefore the impact on the financial result is insignificant).

In Q4 2020 value of other costs dropped by 97% and was PLN 606,000 while in the analogous period of 2019 the figure was PLN 20,020,000. 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 [...] recognised in Q4 2019 was to be settled over time through accruals and deferrals.

### Costs of LW Bogdanka S.A.

#### Costs by type



#### 2020

In 2020 costs by type incurred by LW Bogdanka S.A. amounted to PLN 2,032,834,000 i.e. less by 5.4% (PLN 115,512,000) than in 2019. The decrease of costs noted in the analysed period was largely influenced by a decrease in outsourced services costs, depreciation/amortisation costs, costs of materials and energy consumption, and other costs.

The value of depreciation and amortisation went down by 7.5% (to PLN 353,990,000) – the value of depreciation of non-current assets fell (PLN -6.2 million) and so did natural depreciation (PLN -22.7 million) due to lower extraction and panel progress.

Total cost of materials and energy consumption went down by 2.7% compared to 2019, and totalled PLN 501,940,000.

In the period under analysis, less heading casing elements were used (PLN -5.2 million), the number of preinsulated pipes dropped (PLN -6.6 million), less conveyor tape was used (PLN -5.41 million) and less parts to the JOY coal-cutting machine and ploughing complex were used (PLN -10.7 million).

At the same time the costs of electric energy were higher by 25.2% as compared to the previous year. It was a result of an increase in unit price by 34.3% with a concurrent drop of the volume used by 6.8%.

Compared to 2019, the value of outsourced services went down from PLN 522,308,000 to PLN 462,016,000 (-11.5%). In the period under analysis, the highest decreases were recorded in the costs of:

- drilling and redevelopment of existing excavations (PLN -38.7 million),
- work on Saturdays and Sundays (PLN -13.8 million),
- transport services related to stone removal for land reclamation (PLN -5.6 million),
- rail coal transport (PLN -4.6 million)
- other services - reclamation, lease of mining machinery (PLN -5.1 million).

In 2020, compared to 2019, the value of employee benefits increased by PLN 3,030,000. In the period under analysis increase was recorded primarily in salaries (PLN +2.8 million as a result of higher average employment, negotiated rise in average pay) and the PPE programme (employee retirement plan) introduced in the Company in H2 2019 (base understated). In addition, in 2020, some employees took advantage of benefits introduced by virtue of provisions regarding the anti-crisis shield in relation to the pandemic (decrease of charges on the part of LWB).

The value of entertainment and advertising costs remained virtually unchanged compared to 2019. Payments were made under the agreement with Górnik Łęczna, as well as other sponsorship agreements, advertising agreements and purchase of advertising materials and gadgets in connection with the new Company image policy.

The value of taxes, fees and charges paid in 2020 went up to PLN 52,802,000 from PLN 48,325,000 in 2019 – higher value of settlements of real property tax (PLN +7.1 million), payments to the National Fund for the Disabled were higher (PLN +7.1 million), and the value of service charge dropped (PLN -3.2 million).

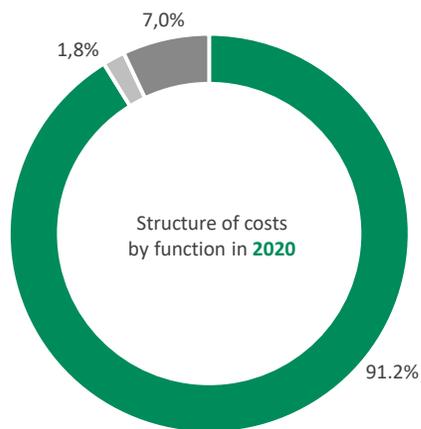
The value of other costs decreased from PLN 22,281,000 (2019) to 2,394,000 (2020). In December 2019 a new insurance policy was taken out with coverage of 18 months from the date of signing thereof (same as the previous policy), and therefore [...] recognised in Q4 2019 was to be settled over time through 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 2020 amounting to PLN 1,726,977,000. Comparing to the previous year, it is lower by 4.1%.

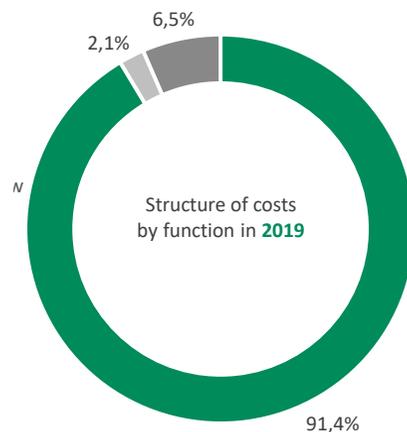
The changes presented in the group of costs by type had a slight impact on the change in the structure thereof. 2020 saw a growth (compared to the previous year) in the share of costs of materials and energy consumption (to 24.7%), employee benefits (to 32.1%), and taxes and charges (to 2.6%). Concurrently drop was recorded in the share of amortisation / depreciation (to 17.4%), outsourced services (to 22.7%) and other costs (to 0.1%). In the period under analysis, the share of entertainment and advertising has not changed.

## Costs of LW Bogdanka S.A.

### Costs by function



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



### Costs by function

The cost of own production sold (by function) in Q4 2020 amounted to PLN 420,103,000 while in the analogous period of the previous year, it was PLN 476,096,000.

Own cost of production sold (by function) in 2020 was PLN 1,726,977,000 and was lower by 4.1% (PLN 74,339,000) than the cost incurred in 2019.

[PLN '000]	Q4 2019	Q4 2020	Change	2019	2020	Change
Costs of products, goods and materials sold	433,614	382,928	-11.7%	1,647,132	1,574,215	-4.4%
Selling costs	9,702	7,428	-23.4%	37,988	31,886	-16.1%
Administrative expenses	32,780	29,747	-9.3%	116,196	120,876	4.0%
<b>Own cost of sales</b>	<b>476,096</b>	<b>420,103</b>	<b>-11.8%</b>	<b>1,801,316</b>	<b>1,726,977</b>	<b>-4.1%</b>

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

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

The LW Bogdanka Group monitors on an ongoing basis the level of costs, ratios and the value of accumulated cash. Current debt (a loan from the Regional Environmental Protection Fund and Water Management for Łęczyńska Energetyka), plus cash held, guarantee the financing on an ongoing 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 2020, 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 2020 stood at PLN 383,201,000, of which:

- PLN 141,591,000 disclosed in non-current assets,
- PLN 241,610,000 is disclosed in current assets.

The amount of PLN 141,591,000 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 bank account or, if only possible (due to historically low level of interest rates) - in a bank deposit. The amount of PLN 241,610,000 includes financial resources (available cash) which, due to the current market situation are, similar as above, held in bank account or kept in short- and medium-term bank deposits (including overnight deposits) – the amount of deposited cash varies depending on internal income and expenditure forecasts as well as the availability of relevant solution in banks servicing the

Group companies. 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 358,373,000, while the funds accumulated at subsidiaries amount to PLN 24,828,000 (primarily to Łęczyńska Energetyka).

### Assessment of factors and untypical events affecting the operating profit

The Company's operating results in Q1 2020 are primarily a consequence of reduced demand for thermal coal from the commercial power plants and the heat sector, due to a warm and windy winter; as well as the economic downturn occurring in consequence of the epidemic of SARS-Cov-2, resulting in the COVID-19 disease, which developed from the beginning of the year. Problems caused by the virus epidemic (problems with employees availability, reduced supplies, materials availability, lower demand [including decrease in electric energy consumption which is followed by a lower demand for coal]) and the protection measures taken for counteracting virus infection, on one hand result in higher operating costs and on the other – in reducing production and reducing the economy of scale, which eventually adversely affects the financial result of the Group. In Q3 2020, apart from the abovementioned factors, there were also geological and mining circumstances which limited the assumed wall progress and achieved yield levels, such as deforming pressure increment causing limited capacity of longwall workings. These difficulties, combined with staff shortages stemming from the growing number of COVID-19 infections as well as the obligation to isolate employees who had been in contact with infected persons have resulted in significant limitation of output and the necessity to update the production

plan to 7.4 million tonnes (final annual extraction exceeded 7.6 million tonnes, nevertheless this level is lower than expected to be performed in standard circumstances, and lower from the Parent's production capacity). It shall, however, be emphasized that the Parent believes these hindrances to be temporary.

In order to mitigate the negative influence of coronavirus on its financial results, the Group took a number of adjusting and optimizing actions. One such action was the application filed by the Parent, in October 2020, with the Provincial Labour Office to be granted financial support from the Guaranteed Employee Benefits Fund ("GEBF") in order to protect jobs (as part of Anti-Crisis Shield 4.0 relief package) in the total amount of PLN 33.7 million. Further, in November 2020, the Parent filed a supplementary motion for additional financing from GEBF for the purpose of job protection in the amount of PLN 0.65 million.

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

In 2020 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

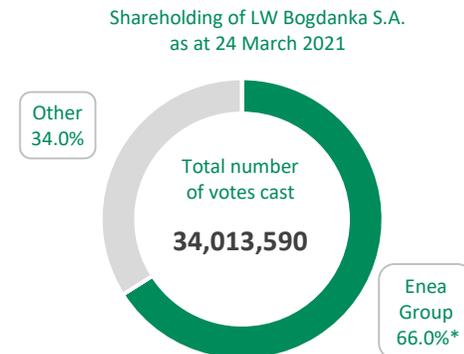
In 2020 LW Bogdanka S.A. and subsidiaries of LW Bogdanka S.A. did not acquire any treasury shares of the Company.

### 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 2020 and the whole 2020.

### Shareholding structure

The graph below shows a shareholding structure of the Company as at 24 March 2021.



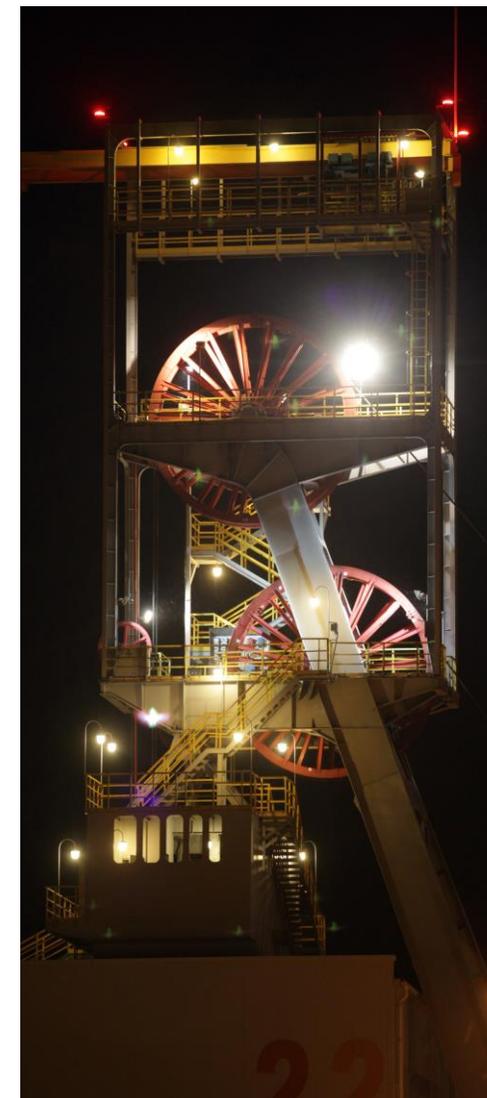
\* Enea S.A. holds 64.6% of votes, and jointly with its subsidiary, Enea Wytwarzanie, it holds 66.0% of votes.

### Participation of the LW Bogdanka S.A.'s shares in indices

The Company was first listed on the Warsaw Stock exchange on 25 June 2009. During 2020, 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 (until 18 September 2020)
- mWIG80 – includes 80 small-size companies listed on the WSE Main Market (from 21 September 2020)
- WIG Górnictwo – includes companies classified into the “Mining” sector (former name of the sector was “Raw Materials”).
- WIG-Poland – includes only the shares of domestic companies listed on the WSE Main Market that meet the baseline criteria of participation in indices.
- Investor MS – Investor MS Index is an external index calculated by the stock exchange on commission of Investors TFI S.A. The functionality of the index is to assess behaviour of share prices of companies with medium and small market cap, which make an investment area of the “Investor Top 25 Małych Spółek FIO” fund (open-end fund of top 25 small companies).
- WIG ESG – includes the largest WSE companies from WIG20 and mWIG40, which conduct socially responsible activity (until December 2020).



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



Key share indicators:	2018	2019	2020
Maximum price [PLN]	70.7	56.5	36.0
Minimum price [PLN]	45.2	32.3	14.8
Last price [PLN]	51.3	34.9	19.2
Average price [PLN]	56.9	41.1	20.9
Capitalisation at end of period [PLN million]	1,744.9	1,185.4	653.1
Book value [PLN million]	2,931.0	3,207.4	3,275.4
Price/earnings ratio	33.8	3.9	9.3
Price/book value	0.6	0.4	0,2
Rate of return at end of period [%]	-23.2	-33.0	-45.8
Dividend rate [%]	-	2.1%	-
Average turnover per session [PLN '000]	720.9	817.7	888.8
Average volume per session	12,712	20,094	44,230
Number of shares in float [no. of shares]	34,013,590	34,013,590	34,013,590

### Analysts' recommendations in 2020

Analysts recommendations	Institution	Recommendation	Target price	Price on the recommendation date
18 February	IPOPEMA Securities	Sell	PLN 19.05	PLN 25.35
19 February	Santander	Sell	PLN 25.00	PLN 21.45
24 February	Erste	Sell	PLN 18.80	PLN 20.00
17 April	Santander	Sell	PLN 14.00	PLN 20.00
28 April	BOŚ	Buy	PLN 35.00	PLN 20.50
30 April	Noble Securities	Sell	PLN 18.30	PLN 21.10
22 May	PKO Securities	Hold	PLN 19.80	PLN 18.98
20 November	PKO Securities	Hold	PLN 18,90	PLN 18,12
7 December	BOŚ	Sell	PLN 10,00	PLN 19,30
8 December	IPOPEMA Securities	Hold	PLN 17,93	PLN 19,08
11 December	Noble Securities	Sell	PLN 16,40	PLN 19.00

The above information is the summary of broker recommendation within the meaning of the Delegated Regulation of the Commission (EU) 20161958 dated 9 March 2016.

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

### Shares in related entities of the Company

Members of the Management Board and the Supervisory Board of LW Bogdanka S.A. 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.

## Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company\* by the management and supervision personnel of LW BOGDANKA S.A.:

Name and surname	MANAGEMENT BOARD					
	The number of the Company shares as of 24 March 2021	Par value of the shares (PLN)	The number of the Company shares as at 25 November 2020	Par value of the shares (PLN)	Number of shares in subsidiary companies	
Artur Wasil	0	0	0	0	0	
Dariusz Dumkiewicz	0	0	0	0	0	
Artur Wasilewski	0	0	0	0	0	
Adam Partyka	253	1,265	253	1,265	0	
Name and surname	SUPERVISORY BOARD					
	Number of the Company's shares as at 24 March 2021	Par value of the shares (PLN)	Number of the Company's shares as at 25 November 2020	Par value of the shares (PLN)	Number of shares in subsidiary companies	
Anna Chudek	0	0	0	0	0	
Iwona Gołden	0	0	0	0	0	
Szymon Jankowski	0	0	0	0	0	
Dariusz Batyra	1,000	5,000	1,000	5,000	0	
Krzysztof Gigol	0	0	0	0	0	
Marcin Jakubaszek	0	0	0	0	0	
Bartosz Rożnawski	0	0	0	0	0	
Michał Stopyra	0	0	0	0	0	
Grzegorz Wróbel	0	0	0	0	0	
TOTAL	Number of the Company's shares as at 24 March 2021	Par value of the shares (PLN)	The number of the Company shares as at 25 November 2020	Par value of the shares (PLN)	Number of shares in subsidiary companies	
	1,253	6,265	1,253	6,265	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 from profit in 2018-2020

Item	Dividend payment year		
	2018	2019	2020
Net profit (separate) for the previous year [PLN million]	673.3	51.6	306.2
Total dividend [PLN million]	-	25.5	-
Dividend per share [PLN]	-	0.75	-
Earnings/loss per share [PLN]	19.8	1.5	9.0
Dividend payment rate	-	49.4%	-
Dividend rate	-	2.1%	-





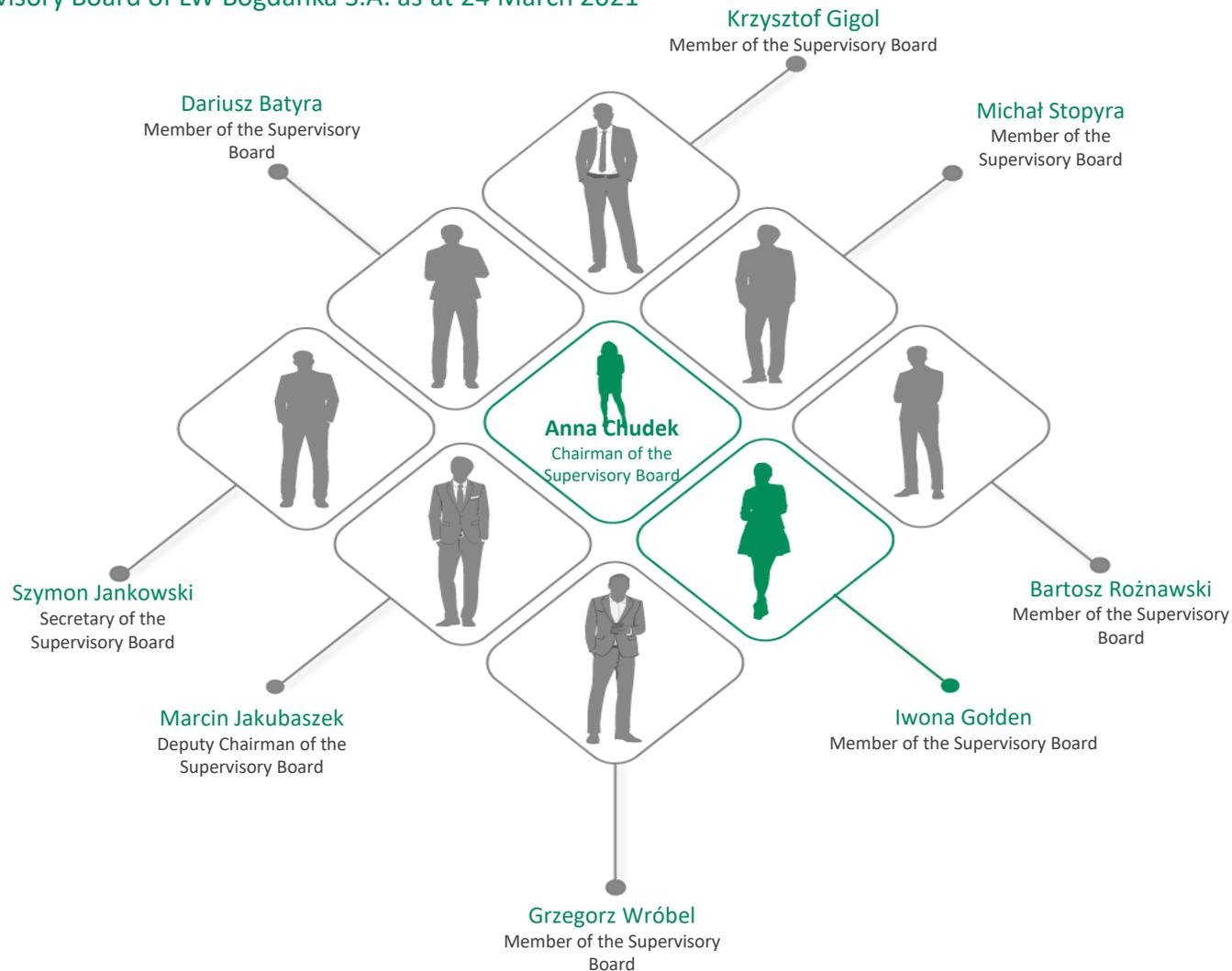
# 5

Governing bodies

Composition of the Management Board of LW Bogdanka S.A. as at 24 March 2021

	<p><b>Artur Wasil</b>                  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><b>Artur Wasilewski</b>                  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 &amp; 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><b>Adam Partyka</b>                  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 since 1985. From June 2014 he held the position of the Deputy Chairman of the "Solidarność" Independent Self-Governing 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><b>Dariusz Dumkiewicz</b>                  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 24 March 2021



## Composition of the Supervisory Board of LW Bogdanka S.A. as at 24 March 2021

### **Anna Chudek**

She graduated in Law at the Faculty of Law and Administration at the Marie Curie-Skłodowska University in Lublin. She completed attorney training at the Regional Court in Lublin.

She completed the following postgraduate studies: European Project Management and EU Law at the Marie Curie-Skłodowska University in Lublin, Public Procurement at the University of Warsaw, Company Law at the University of Warsaw.

Anna Chudek holds the title of attorney-at-law and is entered into the Register of Attorneys-At-Law of the Lublin Regional Bar Association.

Since 1993, she has been employed as attorney-at-law with the City Council of Świdnik, where she heads the Legal Office. She is also employed by Świdnik District Governor's Office as attorney-at-law and legal services coordinator.

On 1 March 2007, Ms Chudek set up a private practice, through which she provides services to local government units, public administration offices, and commercial companies, including from the energy sector.

Between 2006 and 2009 she was a Member of the Supervisory Board of Polskie Radio Regionalna Rozgłośnia "Radio Lublin", and from 3 June 2011 to 25 June 2020 – the Chairwoman of the Supervisory Board of Przedsiębiorstwo Energetyki Ciepłej "PEC" Sp. z o.o. in Świdnik.

### **Iwona Gołden**

She is a graduate of The Poznań University of Economics and Business. She received her Master of Economics degree in 1991. She has been a member of Association of Chartered Certified Accountants (ACCA) since 2001.

She is an experienced manager and boasts many years of experience in finance and auditing. In 1991-1999 she worked in Ernst & Young and PricewaterhouseCoopers auditing companies. In the following years Iwona Gołden held the positions of Financial Controller or Finance Director in companies operating in various areas, such as construction industry and power sector, as well as expanded her professional experience and skill set not only in finance, but also in process and employee management.

She has been part of the ENEA Group since 2018 – first as Controlling Director in ENEA Centrum Sp. z o.o., then, since 2019, as Head of the Controlling Department for the ENEA Group. She was a Member of the Supervisory Board of ENEA Centrum Sp. z o.o. from February 2020 to October 2020.

### **Szymon Jankowski**

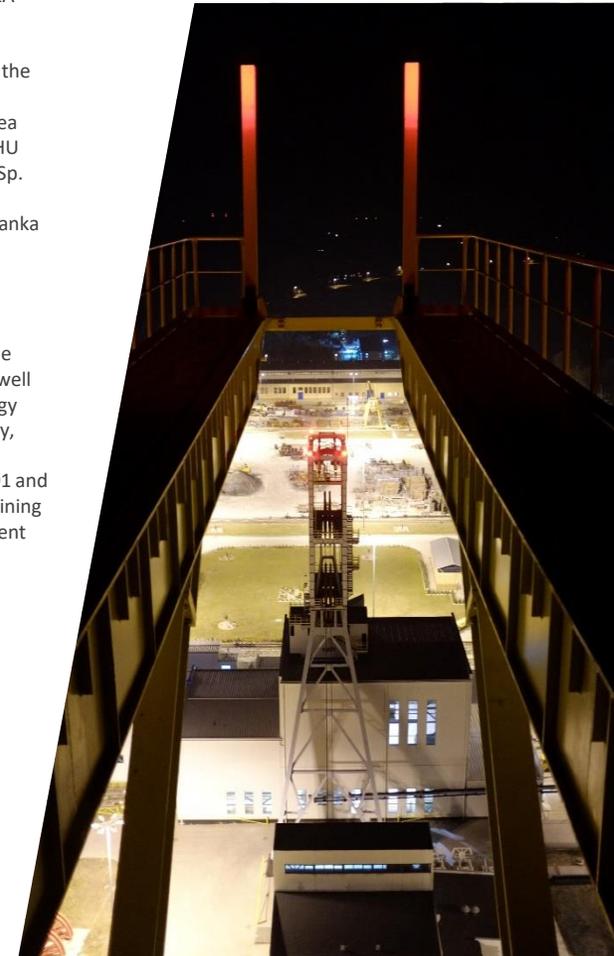
Szymon Jankowski graduated from the Academy of Economics in Poznań (currently Poznań University of Economics), where he completed studies in management and marketing at the Faculty of Management. He is also a graduate of post-graduate studies at the Poznań University of Economics in commercial law, as 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 25 years. Since 1999 until now, he has worked in various

corporate governance positions within the ENEA Group, recently as Manager of Corporate Governance Division.

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. He has been the Secretary at the Supervisory Board of LW Bogdanka S.A. since February 2016.

### **Dariusz Batyra**

Graduate of the Mining School Complex and the Mining Technical School in Ostrów Lubelski as well as the AGH University of Science and Technology in Krakow, with a degree in Mining and Geology, specialising in Underground Mining. He has been related to LW Bogdanka since 2001 and is currently employed as Underground Chief Mining Foreman, Deputy Manager of Mining Department in the Nadrybie Field.



## Composition of the Supervisory Board of LW Bogdanka S.A. as at 24 March 2021

### **Krzysztof Gigol**

Krzysztof Gigol graduated from the Management Faculty of Kozminski University in Warsaw. He also earned a postgraduate Master of Business Administration degree, having completed the studies at Warsaw School of Administration and Management with top grades. He boasts many years of practical experience in developing strategies for sales and business growth, as well as in management of teams in energy and industrial sectors. He has successfully designed new structures of organisations and implemented their restructuring processes. Since 2011, he has been involved in heating plant upgrades, as well as investments in cogeneration systems and renewable energy. He implements long-term projects in the field of industrial power generation and in companies owned by local governments. Krzysztof Gigol has been a member of Management Boards and held high-level managerial posts in power companies such as Gaspol Energy, Energia Polska, Cogen Energy, and Energa Obrót. He is an expert in the field of energy efficiency and independence, renewable energy sources and low-emission energy and heat generation. His involvement in social matters includes cooperation with Forum Rozwoju Efektywnej Energii, where he served as expert consultant, and PROZON Foundation for the Protection of the Ozone Layer, where he held the position of Deputy Chairman of the Management Board. He authored numerous articles and publications on energy and the energy security of Poland.

### **Marcin Tomasz Jakubaszek**

He graduated from the Faculty of Law and Administration of Warsaw University. He holds the title of attorney-at-law and is entered in the Register of Attorneys-At-Law of the Warsaw Bar Association. Moreover, Marcin Jakubaszek graduated from the British Law School organised by Warsaw University and Cambridge University. He boasts 24 years of job experience. He has worked as lawyer with Amhurst Brown Sp. z o.o., Wardyński i Wspólnicy Sp.k., and Miller, Canfield, W. Babicki i Wspólnicy Sp.k. He has also served as liquidator in Polcel Sp. z o.o. In 2005, he started his own firm, Marcin Jakubaszek, Radcowie Prawni i Adwokaci. Since 2015, he has been a managing partner at Jakubaszek i Wspólnicy Sp.k., providing legal advisory services. He is Member of the Audit Committee of the Polish-Canadian Chamber of Commerce as well as Member of the Audit Committee of The Sue Ryder Foundation.

### **Bartosz Rożnawski**

Graduate of the AGH University of Science and Technology in Krakow, with a degree in Environmental Engineering as well as Mining and Geology. He has been with LW Bogdanka for 14 years and is currently employed as Manager of Mining Department in the Stefanów Field, Deputy of the HMSMF.

### **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.

### **Grzegorz Wróbel**

He is a graduate of administration at the Marie Curie-Skłodowska University in Lublin. He also completed the Executive Master of Business Administration post-graduate programme at the Warsaw Management University. His professional experience comes as a result of working in Public Utilities Department in Obsza. Grzegorz Wróbel has been employed in Obsza Commune Office since 2011. There he serves as Obsza Commune Secretary as well as Deputy Registrar of the Office of Vital Records in Obsza. In 2018 he became Councillor of the Lublin Province. Grzegorz Wróbel held the position of Member of the Supervisory Board of Miejski Zakład Komunikacji Sp. z o.o. in Zamość. He is currently a Member of the Supervisory Board of RCEkoenergia Sp. z o.o. in Czechowice-Dziedzice.





## Changes in the composition of the Company's Management Board

### Event

In 2020 no changes occurred in the Management Board of LW Bogdanka S.A.

## Changes in the composition of the Supervisory Board

### Date

### Event

29 July 2020

The Annual General Shareholders Meeting of LW Bogdanka S.A. adopted resolutions as a result of which the Supervisory Board was appointed for the joint term of office of three years in the following composition:

- Ms Izabela Antczak-Bogajczyk
- Mr Dariusz Batyra
- Ms Anna Chudek
- Mr Szymon Jankowski
- Mr Bartosz Rożnawski
- Mr Michał Stopyra

27 August 2020

The Extraordinary General Shareholders Meeting of LW Bogdanka S.A. appointed Mr Krzysztof Gigol and Mr Marcin Jakubaszek as members of the Supervisory Board.

1 October 2020

The Minister of State Assets appointed Mr Grzegorz Wróbel to the Supervisory Board.

14 October 2020

Ms Izabela Antczak-Bogajczyk resigned from holding a position of member of the Supervisory Board on 25 October 2020.

27 October 2020

The Extraordinary General Shareholders Meeting of LW Bogdanka S.A. appointed Ms Iwona Gołden as member of the Supervisory Board.



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

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

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

### Rules of remuneration of the Management Board Members

The rules of remuneration of the members of the Management Board of LW Bogdanka S.A. which applied in 2020 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 as well as the Remuneration policies for the members of the supervisory body and management body at Lubelski Węgiel Bogdanka S.A., introduced on the basis of a resolution of the Annual General Shareholders Meeting of the Company of 29 July 2020.

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 (variable remuneration).

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 2020	Total remuneration [PLN]
Artur Wasil	1 January – 31 December	PLN 901,680.00
Adam Partyka	1 January – 31 December	PLN 728,280.00
Artur Wasilewski	1 January – 31 December	PLN 780,300.00
Dariusz Dumkiewicz	1 January – 31 December	PLN 728,280.00

In 2020, on the basis of resolutions taken with respect to the performance of Management Goals and determining the amount of Variable Remuneration for 2019, the following amounts of the annual bonus were paid out:

Name and surname	Annual bonus for 2019 (paid in 2020)
Artur Wasil	PLN 277,680.00
Adam Partyka	PLN 224,280.00
Artur Wasilewski	PLN 240,300.00
Dariusz Dumkiewicz	PLN 224,280.00

In 2020 no former member of the Company's Management Board received any non-competition compensation or severance pay.

### Remuneration of individual Members of the Management Board paid in 2020

The total gross remuneration paid to the Members (present and former) of the Management Board in 2020 amounted to PLN 3,138,500, which represents a y/y decrease of 17.4% (in 2019 PLN 3,799,400 was paid). For fulfilling their duties in the Company, the Members of the Management Board received remuneration under a Service Agreement.

In 2020, 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 2020 amounted to PLN 2,622,000. 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 2020 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 2020

There were no changes in the rules of remuneration after 31 December 2020. A detailed report on remunerations will be prepared on the basis of Article 90g.1 of the Act on Public Offering for 2019-2020 by the Supervisory Board and presented for the opinion of the General Shareholders Meeting.

## 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.

Remuneration of the Supervisory Board members was:

- defined by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017;
- amended by virtue of Resolution No. 30 of the Annual General Shareholders Meeting of 26 June 2017;
- and Resolution No. 4 of the Extraordinary General Shareholders Meeting of 17 October

2019.

In accordance with the adopted resolutions monthly remuneration of the members of the Supervisory Board is a product of 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, and the following multiplier:

- for chairman of the Supervisory Board – 1.2
- for the remaining members of the Supervisory Board – 1.2

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.

In 2020 no changes were introduced to the basis of calculation of LW Bogdanka S.A. Supervisory Board members' remuneration, which was related to the introduction of the Act on specific solutions serving the implementation of the budget act for 2020, dated 13 February 2020 (Article 31).

Additionally, the Annual General Shareholders Meeting of the Company by virtue of its Resolution of 29 July 2020, adopted Remuneration policies for the members of the supervisory body and management body at LW Bogdanka S.A., which specified the rules of remuneration of the Company's Supervisory Board.

### Amount of remuneration of individual members of the Supervisory Board paid out in 2020

In 2020 a total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company amounted to PLN 490,900, which represents a y/y decrease of 1.3% (in 2019 PLN 497,500 was paid), including:

Members of the Supervisory Board holding offices as at the day of publication of the Report:

Name and surname	The term of office in the Supervisory Board in 2020	Remuneration
Anna Chudek	30 July – 31 December	PLN 26,763.64
Marcin Jakubaszek	27 August – 31 December	PLN 21,990.51
Szymon Jankowski	1 January – 31 December	PLN 65,727.90
Dariusz Batyra	30 July – 31 December	PLN 26,763.64
Krzysztof Gigol	27 August – 31 December	PLN 21,990.51
Iwona Golden	27 October – 31 December	PLN 0.00
Bartosz Rożnawski	30 July – 31 December	PLN 26,763.64
Michał Stopyra	1 January – 31 December	PLN 65,727.90
Grzegorz Wróbel	1 October – 31 December	PLN 15,853.62

Members of the Supervisory Board holding offices in 2020:

Name and surname	The term of office in the Supervisory Board in 2020	Total remuneration [PLN]
Nowaczyk Ewa	1 January – 29 July	PLN 38,964.26
Kowalik Mirosław	1 January – 29 July	PLN 9,347.38
Spoz Anna	1 January – 29 July	PLN 38,964.26
Antczak-Bogajczyk Izabela	1 January – 25 October	PLN 54,136.01
Romańczuk Mariusz	1 January – 29 July	PLN 38,964.26
Patyra Kamil	1 January – 29 July	PLN 38,964.26

### Other benefits and sources of remuneration

In 2020 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 2020, LW Bogdanka S.A. complied with the rules of the "Best Practice for WSE Listed Companies 2016" (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 w Warszawie S.A. 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>

Due to the fact that the Prime Minister did not define any good practices in the field of corporate governance, as referred to in Article 7.3 of the Act on the Principles of State Property Management, in 2020 the Company did not use any practices other than those indicated in the Best Practice for WSE Listed Companies.

### 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 LW Bogdanka S.A. that would dominate the potential benefits arising from market needs, in 2020 the Company departed from the application of some of the corporate governance rules and one recommendation as specified below.

### The Company did not apply one of the 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.A.'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.A.'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 2020

	2020
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 2020

	2020
Total	9
Women	2
Men	7
Below 30 years	0
Between 31 and 40 years	0
Between 41 and 50 years	6
Over 50 years	3
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 intended for implementation of the following control aims 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, forming part of the INTEGRA Integrated Management System. 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.

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. keeps accounting books and prepares financial statements on the basis of the International Financial Reporting

Standards and related interpretations announced in Regulations of the European Commission, as endorsed by the European Union ("IFRS EU").

In compliance with the provisions of Directive 2004/109/EC dated 15 December 2004 and in relation to the Regulation of the European Commission No. 2019/815 dated 17 December 2018 with regard to regulatory technical standards on the specification of a single electronic reporting format, the Company also prepares financial statements in compliance with the European Single Electronic Format (ESEF) for the financial year starting on 1 January 2020.

At the moment this obligation refers to the consolidated financial statements, and the first ones covered with the ESEF compliance requirement are the annual consolidated financial statements of the LW Bogdanka Group for 2020.

Under the above regulations the Company will embed XBRL tags in the consolidated financial statements; to note, currently the tagging requirement refers to basic components of the financial statements, i.e. statement of financial position, profit and loss account and the statement of comprehensive income, statement of changes in equity and statement of cash flows.

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 LW 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	24 March 2021	
	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%
<b>Total</b>	<b>34,013,590</b>	<b>100.0%</b>

\* 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 2020 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

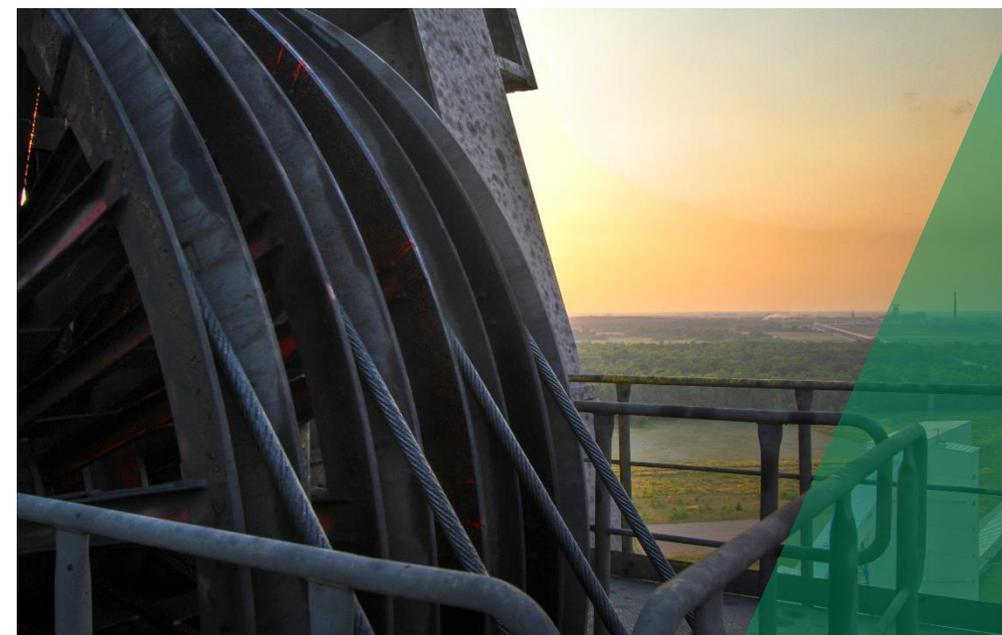
The Company has not issued any securities which would entitle shareholders to special control rights.

### 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 of 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 2020 the Management Board held 65 minuted meetings and adopted a total of 1,403 resolutions. Additionally, 13 resolutions were adopted by the Management Board through the electronic mail. In 2020 the total number of adopted resolutions was 1,416.

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 2020 the Management Board of the Company did not grant or revoke any powers of proxy.

### 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 of LW Bogdanka S.A. Management Board

### Tasks and obligations of the members of the Management Board in 2020

#### In accordance with the Company's Organisational Rules:

##### President of the Management Board

- 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) internal structural and ownership transformations
  - e) providing information and reports to investors, shareholders and stock exchange institutions
  - f) 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
  - g) supervision over tasks related to the maintenance and enhancement of the

- Compliance system
- h) internal audit in the Company
- i) maintenance and development of production capacities (future plans with regard to the development and modernisation of the production process)
- j) control over materials and machine management
- k) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse
- l) analysing technical advancements and implementing state-of-the-art and innovative solutions.
- m) 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

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
- policy of communication and cooperation with the mass media
- promotion and advertisement activities
- corporate social responsibility and sustainable development
- 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
- risk management
- working together with Management Board members on the development of growth concepts, long-term economic plans and development production plans
- sales and wholesale shipping of coal
- monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant
- coal warehousing
- ownership supervision and capital investments
- project management
- supervision over the Rail Transport Department
- investment planning and implementing
- supervision over the ERM process at the Company (corporate risk management)

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

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
- cost estimation
- planning and monitoring of the processes – procurement, investments, logistics
- supervision over the Procurement Department

## Governing bodies of 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 State Assets 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 77.

#### 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.
- providing opinions on any issues presented by the Management Board to the General Shareholders Meeting.

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 of 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 2020.

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 2020 the Audit Committee operated in the following compositions:

#### Composition of the Audit Committee from 1 January to 29 July 2020

Anna Spoz <sup>1) 2)</sup>	Chairman
Izabela Antczak-Bogajczyk	Member
Michał Stopyra <sup>1) 3)</sup>	Member

#### Composition of the Audit Committee from 6 October 2020

Krzysztof Gigol <sup>1)</sup>	Chairman
Michał Stopyra <sup>1) 3)</sup>	Member

#### Composition of the Audit Committee from 5 November 2020

Krzysztof Gigol <sup>1)</sup>	Chairman
Anna Chudek <sup>1)</sup>	Member
Iwona Gołden <sup>2)</sup>	Member
Michał Stopyra <sup>1) 3)</sup>	Member

<sup>1)</sup> 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,

<sup>2)</sup> a member having knowledge and skills with respect to accountability or auditing financial statements,

<sup>3)</sup> 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 24 March 2021 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. 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 7 meetings in 2020 and adopted 10 resolutions.

#### Information on appointing a chartered auditor

In order to make a review of the Company's financial statements and the Group's consolidated financial statements, having conducted a tender, the Supervisory Board, following a recommendation of the Audit Committee, appointed PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp.k.) with registered office in Warsaw (hereinafter: PwC). The abovementioned entity was selected for the period of three years.

In 2020, 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, PwC 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 2019,
- review of the Group's consolidated financial statements for 2020, prepared in the XBRL format,
- checking whether the electricity consumption ratio for 2017-2020 was calculated correctly,
- assessment of the Report on remuneration paid to the Management Board and the Supervisory Board of the Parent for 2019-2020.

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 LW Bogdanka S.A. were independent 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 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 2020

In 2020 one Annual and four Extraordinary General Shareholders Meetings of the Company were held:

#### Extraordinary General Shareholders Meeting of 29 May 2020, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 29 May 2020:

- 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

#### Annual General Shareholders Meeting of 30 June 2020 (continued on 29 July 2020), which was held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 30 June 2020:

- 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,
- Recognising Directors' Report on Operations of LW Bogdanka S.A. and of the LW Bogdanka Group for 2019, containing the statement on non-financial information.
- Recognising the Financial Statements

of LW Bogdanka S.A. for 2019.

- Recognising the Consolidated Financial Statements of the LW Bogdanka Group for 2019
- Presentation of the Management Board's motion regarding the distribution of net profit for 2019.
- Presentation of the Report of the Supervisory Board of LW Bogdanka S.A. for the financial year 2019
- Presentation of the Report on hospitality expenditure, legal services expenditure, marketing services expenditure, expenditure on public relations and social communication as well as management consulting services, and the Report on the application of the best practices referred to in Article 7.3 of the Act of 16 December 2016 on the principles of management of state-owned property.
- Adopting resolutions on:
  - Introducing the Remuneration policies for the members of the supervisory body and management body at LW Bogdanka S.A. Approval of Directors' Report on Operations of LW Bogdanka S.A. and of the LW Bogdanka Group for 2019, containing the statement on non-financial information
  - Approval of the Financial Statements of LW Bogdanka S.A. for 2019
  - Approval of the Consolidated Financial Statements of the LW Bogdanka Group for 2019
  - Granting discharge to the members of the Management Board of LW Bogdanka S.A. for the performance of duties in 2019
  - Approval of the Report of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. for the financial year 2019
  - Granting discharge to the members of the Supervisory Board of LW Bogdanka S.A. for the performance of duties in 2019
  - Appointment of the Supervisory Board members for the new term of office
  - Distribution of net profit for the financial year 2019

- Miscellaneous.
- Closing of the General Shareholders Meeting.

#### Extraordinary General Shareholders Meeting of 27 August 2020, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 27 August 2020:

- 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 resolutions on changes in the composition of the Supervisory Board,
- Closing of the Extraordinary General Shareholders Meeting

#### Extraordinary General Shareholders Meeting as at 27 October 2020 – held in the Company's registered office in Bogdanka.

Agenda of the Annual General Shareholders Meeting of 27 October 2020:

- 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 resolutions on changes in the composition of the Supervisory Board,
- Closing of the Extraordinary General Shareholders Meeting

#### Extraordinary General Shareholders Meeting of 30 December 2020, which was held in the Company's registered office in Bogdanka.

Agenda of the Extraordinary General Shareholders Meeting of 30 December 2020:

- 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 LW Bogdanka S.A.'s website [www.ri.lw.com.pl](http://www.ri.lw.com.pl).





# 7

## Statement on Non-Financial Information

## The Company and its business

### model

Below is the 2020 LW Bogdanka S.A.'s and the LW Bogdanka Group's Statement on Non-Financial Information for 2020 ("Statement") which is a separate part of the Directors' Report on Operations of LW Bogdanka S.A. and the LW Bogdanka Group for 2020 (prepared as one document), covering non-financial information for the period from 1 January 2019 to 31 December 2020. 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 2020 the majority of the coal sales (94%) 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.

The majority of the Group's sales (about 84%) 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, too, provides its services to LW Bogdanka. 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 72.3% and 27.7% 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	7
Men	4,647	46
<b>Total</b>	<b>4,922</b>	<b>53</b>

### As at 31 Dec. 2020 (by persons)\*

LW BOGDANKA GROUP	employment contract	civil law agreement
Women	301	13
Men	5,463	74
<b>Total</b>	<b>5,764</b>	<b>87</b>

\*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 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
- The Power Engineering and Transport School Complex in Chełm

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". Despite difficulties in 2020 internships were organised for students from partner schools.

Such activities make the Company visible among future candidates to work. In order to increase the efficiency of the activities, a new role in the organisation was appointed, i.e. a person in charge

of supporting the adaptation process and internships.

Five people were employed as part of the "Passport for work" programme. In accordance with the assumption of the programme and the plan, further 12 graduates will be hired in 2021.

In 2020 the Group organised internships for 66 high school and university students. Vocational internships were suspended given the regulations related to COVID-19 pandemic prevention.



LW Bogdanka S.A.	Recruitments 2020	Left 2020	Recruitments 2019	Left 2019
Women	17	14	28	15
Men	116	114	270	120
Employees, breakdown by:				
• employees under 30	69	11	134	22
• employees between 30 and 50	61	55	154	46
• employees above 50	3	62	10	67
<b>Total</b>	<b>133</b>	<b>128</b>	<b>298</b>	<b>135</b>

LW BOGDANKA GROUP	Recruitments 2020	Left 2020	Recruitments 2019*	Left 2019*
Women	24	18	31	19
Men	366	353	863	550
Employees, breakdown by:				
• employees under 30	199	118	462	260
• employees between 30 and 50	182	179	408	226
• employees above 50	9	74	24	83
<b>Total</b>	<b>390</b>	<b>371</b>	<b>894</b>	<b>569</b>

\* 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 2020 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.

At the beginning of the year, the Company identified risks regarding the development of knowledge and skills, and tried to mitigate these risks by way of taking training and educational measures. The risks were mainly related to a smaller availability of training courses in 2020 due to restrictions resulting from the Covid-19 pandemic.

The pandemic made the conduct of regular training and traditional educational activities impossible. Due to limitations imposed both by the government and the Company's regulations, the Training Department had limited options to pursue training activities. Since March, obligatory OHS training courses are carried out online. In the event that an employee was not able to participate online in a training course, a traditional model was available, i.e. training session in a room for 10 persons, with the sanitary regime being observed. Up to this moment, keeping the employees safety in mind, 4,418 people were subject to periodic training, 178 persons were subject to initial training and 589 people took part in training for third party entities. Additionally, internal online training sessions were carried out for 89 people (on GDPR, liquidated damages, etc.) and in a combined form with the use of training platforms for 168 people (soft skills training). Furthermore, external training companies were also employed, from April 2020, who organised (mainly online) training sessions,

including on labour law, new act on public procurement, effective SIP function, audit committee and other subjects, after transformation of training companies which adjusted to the new circumstances and requirements.

#### LW Bogdanka Group

Total number of training hours in 2020	Total number of training hours in 2019
65,612	95,239

#### LW Bogdanka S.A.

Total number of training hours in 2020	Total number of training hours in 2019
50,338	75,069

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

	LWB	RGB	MRB	ŁE	Eko Trans
Women	8.6	4.8	5.3	1.8	-
Men	11.7	-	4.4	2.8	-

#### 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 2020

Funds for the Company Social Benefits Fund [PLN '000]	Funds used	Performed [%]
18,035.0	11,705.6	64.9%

#### 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.A.'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.

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 on 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 partly 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 2020 the following actions were taken in order to improve safety in Lubelski Węgiel Bogdanka S.A.:

- The OHS Department continued intensified control of work conditions in Company departments, conducted talks with employees with respect to their responsibility for work non-compliant with applicable provisions and rules governing occupational health and safety,
- The "Improving OHS conditions - First Aid" project pursued by the Lublin Medical University was suspended because of the COVID-19 pandemics.
- During periodic training sessions additional presentations regarding accidents were made and discussed, with special attention put on threats associated with excavations, reinforcement and liquidation of panels as well as with drilling roadways.
- The OHS Department supported the Employer in relation to the introduced procedures aiming at preventing and combatting COVID-19, through on-going monitoring of their observance by the employees as well as by providing advice in the purchases of additional personal and collective protection equipment.
- Visual renderings presenting occupational accidents and short instruction videos were prepared and displayed on screens installed in all

Fields and used in periodic training sessions.

- Annual competition on OHS awareness and knowledge was carried out for the employees of LW Bogdanka S.A.

### Accidents in 2020

	LW Bogdanka S.A.	LW Bogdanka Group
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	10	10
Number of all reported accidents – total staff	79	92
Number of all reported accidents – subcontractors	80	80



## 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 due to 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 Group pursuing its economic objectives in line with the expectations of the society and the requirements of the environment.

The Company has implemented 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. Our 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 an audit carried out by PRS Certyfikacja S.A. Several (facultative) OHS solutions were kept in place in order to improve employee safety at the Company. We continued the cooperation with the Lublin Medical University, which brought a cycle of several training courses on first aid addressed exclusively to the Company's employees.

The training program was suspended for the time of the pandemic, however we plan to continue the action and maximise education in this area. "Medical ultrasound instead of flowers!" is a preventive action addressed to women employed at LW Bogdanka S.A., on the Women's Day. It was a good opportunity to draw attention to regular self-testing and the chance for support for women in early disease diagnosing.

A physician was present at the Company and for several days conducted tests; there were 5 types of test available at choice. What's important, in order to ensure availability of the tests, they were being conducted during work hours.

Health prevention measures were focused primarily on counteracting the dissemination of the COVID-19 pandemic. Relevant information was displayed on various carriers, including OHS screens or boards displayed at the entrance to the Company. Moreover, in order to ensure the highest level of occupational safety, the Company develops and displays on screens (located in places where the crew gathered before descent) reconstructions of accidents at work and demonstrations of correct performance of duties were.



In order to motivate the employees for improving their knowledge on safety regulations, an OHS competition was organised.



### Close to nature

Sustainable development of LW Bogdanka S.A. means prioritisation of environment protection and care for ecological aspects. The Company is aware on how precious area, in terms of nature, it is situated, in vicinity of the Polesie National Park and other protected areas; therefore it pursues numerous projects which decrease the adverse effect on the environment and other indirect effects of the industrial activity, like emissions or the use of water and materials. The magnitude and scale of the impact on the natural environment depends to a large extent on the extraction technology employed by the mine and on how environmental issues are handled by the enterprise.

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.

"Intersectoral cooperation for LWB's sustainable growth" is a programme created with a view to creating a portfolio of projects carried out in cooperation with Bogdanka stakeholders - primarily scientific institutions and pro-environmental organizations in order to develop innovative projects together, with particular focus of the latest research

trends, based on the concept of sustainable growth. Bogdanka set key areas of influence which it connected with the stakeholders and specifically defined actions to increase the Company's environmental efficiency.

In 2020 revitalisation measures were taken on the "Nadrybie" educational path, which is a joint project of Bogdanka and the Polish Society for the Protection of Birds.

The path is located within the Łęczna Lake District Landscape Park, in an area with particular natural value which is protected by the Natura 2000 network. The educational path provides an opportunity to see different types of habitats and characteristic species. The more than two-kilometre route includes shelters for resting as well as stops with educational information boards describing the birds, amphibians, plants, butterflies, fish, mammals and reptiles found there. In 2020 additional elements appeared on the path, namely wooden bicycle racks and new tables. A project "Soil – agricultural space. Sustainable agriculture in the areas in vicinity of LWB" A long-term goal of the pursued project is to implement sustainable agricultural activity in the areas located in vicinity of the Bogdanka mine by way of a detailed examination of the condition of soil and educational activity, which is to result in maintaining production potential and soil function as well as mitigating the negative impact of agriculture on the surrounding natural environment. The assumed goals are to be achieved by developing and publishing materials being a compendium of knowledge on agricultural activities managed in line with the rules of sustainable agriculture on the areas adjacent to the Bogdanka mine. The brochure, based on the results of the conducted tests and recommendations given by the scientists, will particularly focus on the application of modern cultivation techniques, reasonable use of fertilizers, applying measures and solutions levelling the results of the agricultural drought.

## Social matters

### Investing in education on sustainable growth

The Company, in cooperation with the Łęczna Municipality and the Landscapes Foundation, pursues activities with respect to sustainable development and social participation. In 2020 the Aesthetics Programme for the Town of Łęczna was successfully completed bringing fruit in the form of:

- general report about urban space requirement in Łęczna, based on contextual inquiries
- five meetings on the subject - discussion groups, lectures, workshops and field visits
- five milestone reports
- final report with recommendations
- two theme maps with pictograms
- detailed recommendations for space management on the Jana Pawła II avenue
- recommendations for green areas in Łęczna ("Beautiful Łęczna").

Dwellers involvement and ideas were included in the final report and gave grounds for developing another phase of actions. In Łęczna a project "Aesthetics Programme Laboratory" was launched; it constitutes a platform for dialogue of dwellers and the town authorities aiming at development of the town's green infrastructure. Three work groups were created: Town Greenery, Culture of Space, and Functional Greenery. The groups were composed of dwellers, representatives of the local non-governmental organisations and town authorities. Their work was supported by third-party experts. Those three areas resulted in jointly developed visions, ideas and plans, which - what was the essence of the project - have been implemented in the town space. As a result, the project enabled the town dwellers to be included in the decision-making process in the context of municipality development, and strongly supported education on environment, climate, and citizen activity.

One of the implemented projects was to make a flowery meadow at the Jan Paweł II avenue in Łęczna.

Another one was to renew the Miner's Square Łęczna - the creative works were based on waste components of mine roof supports and other construction materials. The whole square was supplemented with greenery; thus, the first square in the town was created of fully recycled materials, referring to mining traditions, and showing the need of lengthening the life of things which are treated as waste. The third group developed the "Relaxation Corner" in Łęczna.



### 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. In 2020 the Parent gave donations and in-kind contributions for a total amount of PLN 400,000 (except for funds granted for counteracting the Covid-19 pandemic) towards the Children's Hospital in Lublin, the Good Samaritan Hospice and Orphanage in Siedliszcze, among others.

In 2020 the Management Board adopted new Rules governing donation granting, where goals and priorities for the Company's social involvement were described along with a procedure of applying for a grant. The changes include developing a grant application form. The rules were presented to the Company's stakeholders at a relevant webinar.

### Action of plasma donations by recovered Covid-19 patients from Bogdanka

Plasma from the recovered Covid-19 patients has become the most efficient cure. Obtaining an appropriate amount of plasma for people in hospitals was difficult. This triggered Bogdanka to organise an action which was to encourage people to appear in the Regional Blood Donation and Blood Treatment Centre. Also the Company's partners were invited, including subcontractors or cooperating self-governments. The action was started with an online conference encouraging plasma donation and presenting the most important information. The Company joined advertising activities, posters and information were displayed in all communication channels. Talks with managers of LW Bogdanka were also conducted. The received feedback allowed the Company to make lists of recovered Covid-19 patients willing to donate blood and plasma. The way the employees responded was a confirmation of their awareness that donating blood may turn out to be the last chance for saving many lives.



### 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 2020 two projects related to counteracting the generation gap were continued: scholarship programme for the best students of partner schools and the "Permit to work at LW Bogdanka S.A."

programme.

In the "Permit" programme the number of employed people was 5 and additional 12 are planned to be hired in 2021. Moreover, a person in charge of supporting the adaptation process and internships was appointed.



**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 described in the application – the ideas are subject to assessment by a Team appointed by the Vice-President of the Management Board responsible for Employee and Social Affairs.

In 2020 we completed almost 30 projects and initiatives for the local community. Total expenditure amounted to PLN 90,000, which helped local educational organisations, farmer's wives' associations, volunteer fire brigade, societies and foundations streamline their work and change the environment more efficiently. Ozonators for the Little Prince Children Hospice, educational software for the 7th Lublin Cavalry Regiment School Complex in Cyców, phantoms for learning first aid for Preliminary School No. 2 in Łęczna, as well as sports and educational equipment are just examples of purchases we made under this project. LW Bogdanka S.A. in 2020 was placed in a group of 6 companies awarded with the "Social Leader of Local Business" prize.

## 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.



On average, 70 % 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. Co-financing provided to education and health care is

related mainly to assistance for institutions, associations and other organisations of significant social importance in the region (the “Hidden Treasure” Society and SPZOZ in Łęczna).

In 2020, the costs of activities set forth in its by-laws amounted to PLN 299,900 (in 2019 - PLN 428,800), which included:

- medical treatment and rehabilitation – 53%
- purchase of medical equipment – 21%
- social aid – 10%
- financing with respect to education and health care – 13%
- other financing – 3%.

### 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 whose main purpose is the common good. The Company's competitive position in the marketplace and the continued growth of trust in the relations with various groups of stakeholders confirm that LW Bogdanka S.A. was right to choose and promote management through values,” says dr Monika Baczevska-Ciupak, Department of Ethics, Faculty of Philosophy and Sociology, Maria Curie-Skłodowska University (UMCS).

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.

To satisfy the requirements imposed on the companies listed on the Warsaw Stock Exchange and to address the changes to European and Polish laws, LW Bogdanka S.A. launched activities aimed at improving applicable compliance policy solutions. Compliance policy making part of Quality Management System is a manifestation of the Company's dedication to maintaining high ethical standards and acting lawfully.

Given the above, as from 1 August 2020 all matters entrusted earlier to the Ethics Representative were entrusted to the Compliance Department.

As a result, two documents were introduced: Policy of reporting breaches at LW Bogdanka S.A. and Compliance Policy at LW Bogdanka S.A.

A Compliance Representative was appointed and given the task to develop and implement the process related to the functioning of the compliance management system. The Compliance Representative monitors, on an on-going basis, the observance of regulations in force and immediately reacts in case of any irregularities.



### Trade Unions and the social dialogue

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

As at 31 December 2020, the size of the individual trade unions (at the Parent) was as follows:

- “Solidarność” Independent Self-Governing Trade Union – 1,007 members
- Trade Union of Miners in Poland – 1,561 members

- “Kadra” Trade Union – 335 members
- “Przeróbka” Trade Union – 347 members.

In total, 3,164 employees were members of trade union organisations, which constitutes 64.3% 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.

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.



### Stable development in uneasy environment

PLN 114 million of public levies remitted to administrative bodies, more than PLN 10 million of additional income of Cyców, Ludwin, and Puchaczów as exploitation fee, more than 5,600 jobs, as well as involvement in OHS and health safety worth in total PLN 152 million. These are only selected data showing the scale of Bogdanka activities and its social role in the Lublin region, which are described in greater detail in the Group's Integrated Report for 2019.

## Social matters

### CSR initiatives carried out in 2020

“Bogdanka’s Active People” is a programme supporting activities performed additionally to regular work by its employees. The programme aims at building organisational culture based on cooperation, dialogue, and commitment of all staff. It has become a chance for development of the employees, and was a driving factor for further achievements. In its will to show that it is worthwhile to take additional after-hours activities, develop hobbies and interests, and set new goals, the Company co-financed 13 active individual employees and 2 employee teams. Areas of interest of the awarded employees in the 2020 edition are: environmental protection, science, culture, arts, and sport. The programme has become a strong element for implementing the “work life balance” philosophy among the employees.

Bogdanka also engages children of its employees to promoting safe behaviour at a workplace and outside. Two competitions regarding safe work in a mine, in 2018-2019 brought fruit in the form of a book for children entitled “Safe mine or Bogdanka in the children’s eyes”, with drawings and poems of the laureates.

“Greet a miner” was a competition organised on the occasion of the Miner’s Day in 2020. Children of the LW Bogdanka Group were given a task to use an interesting and artistic form to greet miners and the whole community of the Lublin Coal Basin. Almost 40 works were submitted to the competition.

Charity fundraising on Bogdanka’s premises – in 2020, 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.



New nesting sites for little owls, long-eared owls, and barn owls will soon appear in the Łęczyński powiat and a part of the Polesie region. This is thanks to the efforts of LW Bogdanka S.A. and the “For Nature” Foundation which at the end of 2020 started cooperation with a view to actively protecting those amazing owl species. The cooperation with the “For Nature” Foundation, within the frame of the proposed actions, is crucial due to their influence for local natural environment and shaping pro-environmental attitudes of the local community. From their nature, owls do not set nests, but to a small extent adapt nesting sites, using nests abandoned by other birds, tree hollows, rock shelves as well as abandoned utility buildings.

The Company started cooperation with a Students Scientific Club “Management” at the AGH University of Science and Technology in making a portal [www.odpowiedzialny.com](http://www.odpowiedzialny.com) [responsible] (formerly: Responsible Coal). The website provides the most important information about coal, including correct and harmful combustion process, friendly and harmful products responsible industry.

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.

Positive Twist – a permanent campaign involving collection of screw-on bottle caps for those in care of 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.



## Social matters

### Awards and accolades

LW Bogdanka S.A. was a laureate of 12th edition of the "Employee-Friendly Employer", organised by the "Solidarność" Independent Self-Governing Trade Union under patronage of the President of the Republic of Poland, Andrzej Duda. Awards were handed on 24 February 2020 in the Column Hall of the Presidential Palace.



Last year the Company received two - out of three possible - awards in the Mining Success of the Year Competition organised by the Mining Chamber of Industry and Commerce. The Jury awarded Bogdanka for innovative technology of managing mining walls (award in the "Innovation" category) and for intersectoral cooperation towards social eco-development (award in the "Ecology" category).



In the 14th Responsible Companies Ranking, Bogdanka's activities, and primarily the results achieved in the field of social responsibility and sustainable growth, have been appreciated: the Company has been awarded with the third place in the "Fuels, Energy, Mining" category.



Presence in the WSE group of companies that create the RESPECT WIG-ESG (until December 2020)



The Company received a distinction in the "Social Leader of Local Business" competition organised with a view to selecting a valuable social initiative in a local business, representing the values of local patriotism in terms of economy.



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.



Already for the third time, the Company became a partner to the Forum of Social Responsibility in Lublin, which was held in September in a combined form.



In the 18th "Responsible Business in Poland. Best Practices" Report, the Forum experts appreciated four projects carried out by the Company in 2019: Bogdanka Socially Committed, Foreman Academy, Intersectoral partnership for urban aesthetics and sustainable development and Big Trees for the Łęczna Poviát.

The highest figure (5) was related to the "Work practices" area.



Bogdanka received the CSR White Leaf from the *Polityka* weekly. It's a special mention for companies pursuing the social responsibility and sustainable development activities.



Bogdanka joined the group of Strategic Partners of the Forum of Social Responsibility. These are companies which may boast specified achievements with respect to corporate social responsibility, want to share their experience with others, and upon joining the group of Partners undertake to support the development of this idea in Poland in the long run.

## Social matters

### Membership in organisations, participation in industry initiatives

The Polish Committee of the World Mining Congress.



International Project Management Association Polska



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



The Professor Waclaw Cybulski Foundation "Safe Mining"



Poland's Economic Safety Consortium – the "Poles change the world" programme



HUGE 2: Hydrogen Oriented Underground Coal Gasification for Europe – Environmental and Safety Aspects" (international consortium headed by the Central Mining Institute in Katowice)



### 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.



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



## Social matters

### Fight with coronavirus

This year Bogdanka has provided up to the total of PLN 800,000 as help for hospitals and institutions fighting the coronavirus pandemic. As part of its cooperation with the Ministry of State Assets and the Province Governor's Office in Lublin, the Company granted a donation for necessary equipment for establishing, in the Lublin Province, a virology laboratory for carrying out tests for SARS-CoV-2 (a new laboratory will enable the number of locally made tests to be increased to 400 per day). The Company has also donated PLN 500,000 for hospitals and health services in the Lublin province. Furthermore, LW Bogdanka S.A. supported two hospitals with which it has been cooperating for many years: Children's Research Hospital in Lublin, Public Health Care Centre in Łęczna, and Independent Public Research Hospital No. 1 in Lublin by providing donations for protection masks and other protective gear for medical staff on duty. The Company also provided support of PLN 20,000 to children from the Siedliszczce Orphanage and provided PLN 10,000 to the ZOO in Wojciechów, which experienced problems and could not finance proper care on animals from all over the world living in the ZOO.

In the times of fight with the SARS-CoV-2 coronavirus LW Bogdanka S.A. has introduced numerous changes to the organisation and rules with a view of protecting employees and their families against coronavirus infection while ensuring the continuity of operations important for the whole economy of the Company. The system of underground work was changed, stringent rules for protective gear (masks, gloves) were introduced, several tens additional underground points for washing hands were installed and additional disinfection of equipment and devices was made. Obligatory body temperature control was also

introduced for persons entering the mine whether on foot or by other means, as well as on buses transporting to the Company facilities.

The mine does not accept external guests, and some portion of employees handling administrative issues work online from homes.

There is dedicated staff and work teams managing the situation on an ongoing basis.

**WSPARCIE W WALCE Z KORONAWIRUSEM**

**RAPORT** #BogdankaSpołecznieZaangażowana

**800 tys. zł** na pomoc w walce z koronawirusem

**WENNAŁTRZ ORGANIZACJI** **PRZYJĘTE ZASADY**

- Oczekujemy ręce, wтары się bezdotykowo
- Zgłaszamy możliwość zakażenia
- Ograniczamy kontakty bezpośrednie
- Wprowadzamy ruch jednostronny
- Odkazujemy łańcig, szolę, pomieszczenia
- Nosimy maseczkę i rękawice
- Stale komunikujemy zasady, stan faktyczny
- Nie spożywamy słonecznika i nie zapywamy tabaki
- Odwolujemy wyjazdy służbowe
- Reorganizujemy szkolenia i badania okresowe

**POMOC SŁUŻBIE ZDROWIA** **PRZY WSPÓŁPRACY Z:**

- SPSW im. JANA BOŻEGO W LUBLINIE - videobronchoskop i respirator
- RODZINNE CENTRUM MEDYCZNE LUBIMED sortet do ozonowania powietrza w stomatologii
- WSE W LUBLINIE - stworzenie i doposażenie laboratorium
- UNIWERSYTECKI SZPITAL DZIECIECY W LUBLINIE - środki ochrony osobistej
- SZPITAL NEUROPSYCHIATRYCZNY im. prof. Maczyśława Kaczyńskiego urządzenie do dezynfekcji
- SPZOZ W ŁĘCZNEJ - środki ochrony osobistej
- SPSK1 w Lublinie - środki ochrony osobistej

**POMOC PARTNEROM SPOŁECZNYM**

- PLACÓWKA OPIEKUNCZO - WYCHOWAWCZA W KLIMACH - doposażenie pokoi
- AKADEMIA SPORTU GÓRNIKA ŁĘCZNA - płyny odkażające
- ZOO W WOJCIECHOWIE - opieka weterynaryjna i żywienie zwierząt
- DOM DZIECKA W SIEDLISZCZU - środki ochrony osobistej, wyposażenie
- TEATR H. CH. ANDRZEJSKINA - spektakl Pippi Langstrump

## Social matters

The below data on LW Bogdanka S.A. and subsidiaries' expenses on the actions described below are of marginal nature.

CSR – expenses [PLN '000]	2019	2020
CSR	498.9	510.7

### 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]	2019	2020
Donations	637.7	1.100,0

Donations [entities]	2019	2020
Beneficiaries of the donations fund of LW Bogdanka S.A.	51	29

### 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.

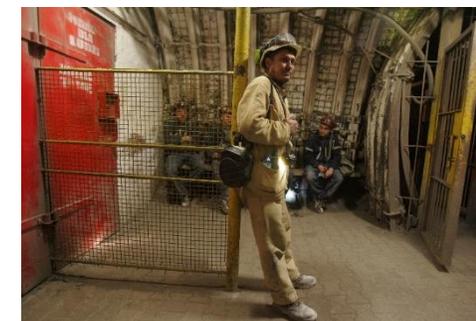


#### Risk of conflict with the local community

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 16,722 m<sup>3</sup>/day.
- the content of chlorides and sulphates in mine water is 1.038 mg/dm<sup>3</sup>.

### Waste management:

- in 2020, total mining waste amounted to 5,091,360 tonnes,
- approximately 45% of waste was recovered and reused. Waste recovery, i.e. using waste to rehabilitate land, strengthen roads and yards, produce cement in the "Ożarów" Cement Plant and for other purposes, amounted to 2,308,530 tonnes,
- 96% 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 (2,782,830 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

- 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

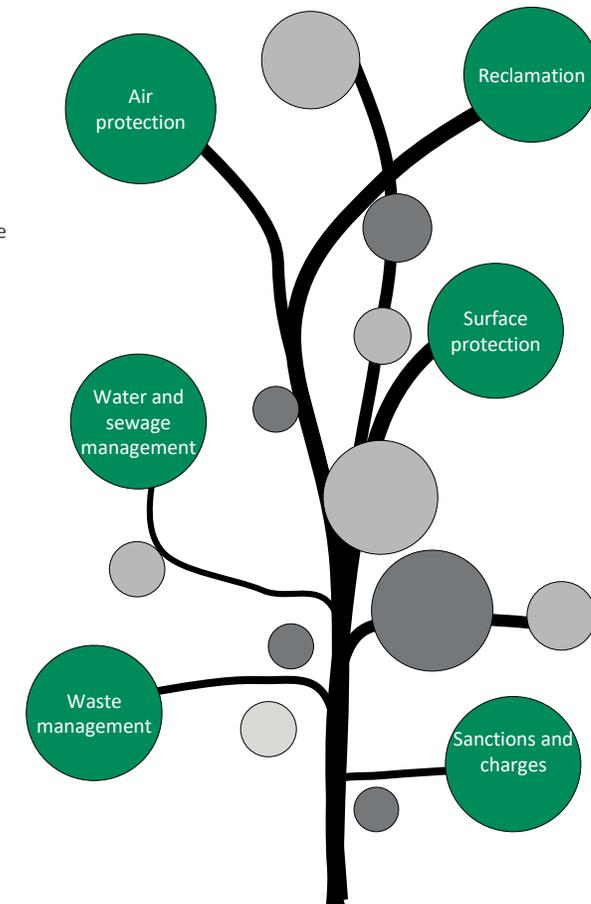
- the influence of mining works performed in 2020 on the surface – as to date – manifested itself mainly as an increase in the surface scope of the existing impact
- maximum soil subsidence within the "Puchaczów V" mining area remain within the area of the village of Bogdanka and Nadrybie Wieś, Puchaczów commune, at a level of 5.0 m in the central part of the settlement basin in this region
- damage to buildings in 2020 – 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 2020, works were carried out to drain agricultural land in areas affected by mining

damage, which involved on-going maintenance of the drainage network, the pumping station, and 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
  - care for post-industrial land
  - 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 2020 for violation of environmental rules laid down in the applicable laws.



## Environmental matters

### Key ratios

Electrical energy consumption [MWh]					
LW Bogdanka S.A.			LW Bogdanka Group		
2018	2019	2020	2018	2019	2020
334,818	322,887	301,007	340,823	328,211	305,492

Water consumption [m <sup>3</sup> ]					
LW Bogdanka S.A.			LW Bogdanka Group		
2018	2019	2020	2018	2019	2020
8,039,967	8,403,229	8,811,055	10,770,192	11,622,978	11,989,827

LW Bogdanka S.A. 2018	2019		2020	
	Production	Recovery	Production	Recovery
Excavation waste	6,646.2	3,093.1	6,299.9	3,061.8
Post-industrial waste	19.1	19.1	19.9	19.9
			16.8	16.8

Environmental protection at LW Bogdanka S.A. [PLN '000]	2018	2019	2020
Waste utilisation	36,729.0	38,739.7	33,502.3
Protection costs (remediation, monitoring, etc.)	3,985.7	6,473.6	2,048.1
Charges for the economic use of the environment	451.5	507.4	545.0

### 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 Group 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

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 at a level of 45-50%).

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 permission 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.



## Environmental matters - climate-related threats

### Risks associated with the necessity of changes in the Company's functioning, involving additional investment expenditure

Climate changes result in more and more stringent climate policy of the EU, which directly and indirectly translates into raising environmental standards which must be met by mining companies.

Mitigating activities:

- Day-to-day supervision over meeting the environmental standards
- Permanent monitoring of modifications to the EU climate policy and the associated changes in national legislation
- Active participation in consultations regarding new regulations
- Permanent search for technical and organisational solutions minimising the Company's impact on climate, e.g. by increasing the level of energy efficiency



### Risk of inability to perform coal sale agreements due to a decrease in demand for thermal coal in Poland and globally

It is likely to observe gradual decrease in demand for products offered so far, which results from changes in the energy mix of Poland (and the ENEA Group) and a drop in the demand for electric energy produced from coal (including as a result of actions taken towards energy efficiency, eliminating natural persons from customer portfolio, own sources of heat and energy becoming more and more popular, increasing average air temperatures in winter).

Mitigating activities:

- Implementing new business strategy, including

diversification of revenue towards excavations of coke coal which is a strategic raw material of the EU



### Risk of increasing costs of functioning because of the necessity to pay higher damages for losses in green land and agricultural land related to compensating environmental mining damage

The excavations involve mining damage and may lead to creating settlement basins, disrupt local water relations and cause local flooding.

Mitigating activities:

- Efficient policy of managing mining damage
- Permanent dialogue with the local community
- Permanent monitoring of the rock mass movements by applying state-of-the-art measurement methods
- Monitoring of environmental aspects by way of Integrated System of Quality, Environment and Safety Management
- On-going reclamation of land exposed to adverse impact of the mining activity



### Risk of increase in costs of obtaining capital and/or insuring property

The global climate crisis makes it more and more difficult for businesses, whose activity is based on fossil fuels, to access financing sources, and insurance companies treat the mining sector as a high risk industry

Mitigating activities:

- Using the Group transformation strategy in consultations with the reinsurance market

- Searching for new methods of securing the property



### Risk of hindrances with respect to any administrative procedures with participation of non-governmental environmental organisations

The activities of the non-governmental environmental organisations may affect the social legitimisation of the Company's activities, including possible protests related to the investment and development activity.

Mitigating activities:

- Pursuance of projects in partnerships with pro-environmental organisations
- Day-to-day communication regarding activities towards increasing safety of the natural environment
- Higher environmental efficiency of the Company and further investments in this respect (increase in energetic efficiency, Water Treatment Station, construction of a photovoltaic farm)
- Respect for state-implemented forms of environment protection (e.g. no current or planned excavations under the Polesie National Park)



### Risk of loss of good name as a result of conducting business involving fossil fuels

Due to the climate crisis, EU policy and the activities taken by NGOs the mining industry may be perceived as guilty of climate changes.

Mitigating activities:

Participation in business initiatives, involvement in the activity towards development and social side, intense communication activities, with emphasis put on showing the Company's role in the Lublin region, its environmental efficiency and readiness for changes.



### Risk of drop in revenue on sales of thermal coal

Higher temperatures in the heating season may mean lower demand for heat energy obtained from coal with concurrent increase in demand for e.g. wind energy.

Mitigating activities:

- Limiting the Company's impact on climate warming
- Taking account of forecast climate models when defining scopes of agreements with customers



## 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.
- Compliance Policy at LWB S.A.
- Procedure of reporting breaches at LWB S.A.
- CSR Strategy.

In 2020 LW Bogdanka S.A. continued implementing the compliance management system. Implementing the system is a result of the necessity to adjust the applicable provisions of law: Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and the Act amending the act on public offering and conditions for introducing financial instruments

to organised system of trade and on public companies dated 16 October 2019 as well as some other acts. The Company is also obliged to introduce the compliance system on the basis of the compliance standards applicable at the Warsaw Stock Exchange. The implemented compliance management system must be applicable upon Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law becoming effective (as of 17 December 2021). Compliance management is effected at the Company in three areas: compliance with generally applicable acts of law, compliance with internal regulations, and compliance with generally accepted ethical standards. The above in particular means the compliance with the following documents: Policy of reporting breaches at LW Bogdanka S.A.; Code of Ethics of Lubelski Węgiel Bogdanka S.A. Rules for accepting and handing gifts; Rules for conducting sponsorship activities Functioning the compliance system at LW Bogdanka S.A. is managed by the Compliance Department and the Compliance Representative of the Management Board. 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.

In connection with the compliance management system having been implemented, the Company's employees will be subject to training on the compliance of law and ethical standards.

The performance of training courses in 2020 was limited due to the situation related to the Covid-19 pandemic.

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 social media (facebook), which prove most effective under given circumstances.

In 2020 up until 1 August 2020 introduction and orientation training for new employees was performed by the Ethics Representative, and as from that date it has been carried out by the Compliance Department and the Compliance Representative of the Management Board. In 2020 all new employees underwent training (due to the situation related to the COVID-19 pandemic, some training sessions were carried out through an online platform).

Employees may, or even are obliged to, report instances of potential incompliance or unethical behaviour. They may reach the Compliance Department and the Compliance Representative of the Management Board through special channels for reporting breaches, i.e. e-mail, telephone, anonymous online form available at the www as well as regular mail. Moreover, the employees are welcome to use mail boxes located in all three mining areas and in the Management Board building. In this way, the employees may remain anonymous. Since 2014, bidders wishing to cooperate with the Company must submit statements on compliance with the rules of ethics, human rights, environmental

protection and labour law (including health and safety).

Any contracts entered into by the Company contain relevant provisions, including permission for an audit to be conducted by or on behalf of LW Bogdanka S.A. In 2020, statements relating to such matters as respect for human rights were submitted in all tender procedures (except for small procedures carried out without tender where such statements are not required).

Moreover, a document titled "Supplier Code of Conduct of LW Bogdanka S.A." has been in force at the Company since 2015.

the Code regulates matters related to:

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

It is expected of the subcontractors working in LW Bogdanka S.A. that their employees comply with the Code of Ethics applicable at the Company. They may also provide information on any potential infringement of the Code.

Total number of incidents of discrimination (at the workplace) in 2020

Total number of incidents of reported infringements – complaints and reservations regarding a failure to observe the Code of Ethics in 2020

12

## Human Rights matters

### Key indicators (LW Bogdanka S.A.)

**Agreements with human rights respect clause [%]** **2020**  
Share of agreements with human rights respect clause 100%

**Employee training [number of people]** **2020**  
Number of employees who were given training in the respect for human rights 178

**Penalties for infringement of human rights and employee rights [PLN]** **2020**  
Total value of penalties imposed on the Company for infringement of human rights and employee rights 0



The LW Bogdanka Group strictly complies with the provisions of Polish law and EU law concerning the respect for human rights. Nevertheless, 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 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. Compliance Department and the Compliance Representative of the Management Board area active at the Company, and support the activities of the whole 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:

- Procedure of reporting breaches at LWB S.A.
- "Guidelines on Accepting and Handing Gifts at LW Bogdanka S.A."
- „Compliance Policy at LWB S.A."
- Procedure of reporting breaches at LWB S.A.

The Code of Ethics applicable 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 bodies responsible for monitoring and managing anti-corruption matters is the Compliance Department and the Compliance Representative

of the Management Board.

In 2020, no instances of abuse were recorded. 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]	2020
Number of confirmed instances	-
Anti-corruption training [%]	2020
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 the employees 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 by the Company's relevant internal units Compliance Department and Compliance Representative of the Management Board.





## 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
- **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
- **APM** – alternative performance measures

### 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, 24 March 2021*



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