

Current Report No. 4/2017

Date of preparation: 9 February 2017

Subject: Key components of the Development Strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2025 (under the 2030 framework), including its dividend policy

Legal basis: Article 17.1 of the MAR Regulation - Inside Information

Content:

The Management Board of LW Bogdanka S.A. (“Company”) with registered office in Bogdanka hereby announces that on 9 February 2017 the Supervisory Board of the Company approved the development strategy of LW Bogdanka S.A. from the Mining Area of the Enea Group until 2025 (under the 2030 framework), which includes a dividend policy as one of its components.

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 cogeneration plants from the Generation Area of the Enea Group and to implement 10 strategic initiatives planned by the Enea Group for the Mining area. The vision presented in the Strategy shows that: “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.”

In accordance with its new mission statement: “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 annual production at a level of about 8.5 million tonnes over 2017-2025 and capital expenditures amounting to PLN 3.7 billion (nominally) in 2016-2025;
- Flexible development scenario, which assumes average annual production at a level of about 9.2 million tonnes over 2017-2025 and capital expenditures amounting to PLN 4 billion (nominally) in 2016-2025.

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

On the basis of the above assumptions, the Company will strive to achieve, by 2025, the Return on Equity (ROE) ratio of 10.9% and the Return on Assets (ROA) ratio of 8.5%, and to increase its nominal EBITDA by 44% (as compared to 2015, after adjustment by revaluation).

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

During the implementation of the Strategy, the Management Board will focus on the key areas of operations of LW Bogdanka S.A., which include:

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

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

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) 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.

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.

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.

Information contained in this Current Report on the Strategy of LW Bogdanka S.A. is not a projection of results. No information contained in this Current Report is meant to be a recommendation to acquire or dispose of any financial instruments as defined in the Regulation of the Finance Minister of 19 October 2005 on information that constitutes recommendations regarding financial instruments and their issuers (Dz. U. [*Journal of Laws*] of 2005, No. 206, item 1715). A detailed description of risk factors related to investment in LW BOGDANKA S.A.'s securities is contained in LW BOGDANKA S.A.'s annual report published as a periodic report of 21 March 2016.