



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT ON OPERATIONS OF THE SUPERVISORY
BOARD OF LUBELSKI WĘGIEL BOGDANKA S.A. AS
THE COMPANY'S GOVERNING BODY FOR 2010**

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I. The Term of Office of the Supervisory Board

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. (hereinafter referred to as the "Supervisory Board" or the "Board") is a permanent supervising authority of LW Bogdanka in all areas of the Company's operations.

The Supervisory Board is appointed for a three-year joint term of office. In accordance with the Articles of Association, the Supervisory Board is composed of 5 to 9 members appointed and removed from office by the General Shareholders Meeting. Two members of the Supervisory Board are elected by the Company's employees. The Supervisory Board operates on the basis of the following regulations:

- Commercial Companies Code,
- the Articles of Association of Lubelski Węgiel BOGDANKA S.A.,
- Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.,

While performing its activities, the Supervisory Board also complies with the rules of corporate governance stipulated in the "Code of Best Practice for WSE Listed Companies".

The Supervisory Board exercises permanent supervision over the Company's operations and performs its tasks on the basis of special powers granted to it by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

II. Composition of the Supervisory Board

Up until 10 June 2010 (the date of the Annual General Shareholders Meeting which approved the Company's financial statements for 2009), the Supervisory Board for the 7th term of office was composed of:

- | | |
|---------------------------------|---|
| 1. Krzysztof MAŚLANKOWSKI, Ph.D | – Chairman of the Supervisory Board, |
| 2. Grażyna DEC | – Vice-Chairman of the Supervisory Board, |
| 3. Adam PARTYKA | – Member of the Supervisory Board
(elected by the Company's employees), |
| 4. Henryk CZAPLA | – Member of the Supervisory Board, |
| 5. Wiesław RÓŻYCKI | – Member of the Supervisory Board, |
| 6. Bogdan KOWAL | – Secretary of the Supervisory Board
(elected by the Company's employees). |

On 10 May 2010 the Management Board of Lubelski Węgiel Bogdanka S.A. was informed about the resignation of Mr Bogdan Kowal from the position of the Supervisory Board Member.

On 9 March 2010 as a result of the disposal by the State Treasury of its majority block of shares, Lubelski Węgiel Bogdanka S.A. has become a private company with a dispersed shareholding structure. As a consequence, as at the date of the Annual General Shareholders Meeting, i.e. 10 June 2010, new members of the Supervisory Board were appointed.

As a result of the resolutions adopted, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A.:

- dismissed Ms Grażyna Dec, Mr Krzysztof Maślankowski, Mr Henryk Czapla and Mr Wiesław Różycki from the positions of members of the Supervisory Board;
- appointed to the Supervisory Board Ms Ewa Pawluczuk and Mr Eryk Karski, Mr Stefan Kawalec and Mr Andrzej Lulka;
- appointed Ms Jadwiga Kalinowska as member of the Supervisory Board elected by the Company's employees.

On 6 July 2010 the newly-elected Supervisory Board held its first meeting, during which the Board established itself by means of appointing:

- the Chairman: - Mr Eryk Karski,
- Vice-Chairman: - Mr Stefan Kawalec,
- Secretary: - Ms Jadwiga Kalinowska.

As at 31 December 2010 and as at the day of submitting the Report, the Supervisory Board of LW BOGDANKA S.A. was composed of:

1. Eryk Karski - Chairman of the Supervisory Board,
2. Stefan Kawalec - Vice-Chairman of the Supervisory Board,
3. Jadwiga Kalinowska - Secretary of the Supervisory Board
(elected by the Company's employees),
4. Andrzej Lulek - Member of the Supervisory Board,
5. Ewa Pawluczuk - Member of the Supervisory Board,
6. Adam Partyka - Member of the Supervisory Board
(elected by the Company's employees).

III. Meetings of the Supervisory Board and the number of resolutions adopted

Meetings of the Supervisory Board in 2010 were convened by the Chairman. In accordance with Article 39.4 of the Company's Articles of Association and Article 6.1 of the Rules of Procedure of the Supervisory Board, the meeting on 6 July was convened by the President of the Management Board. Dates of holding meetings were each time agreed by all of the members of the Supervisory Board.

During the reporting period, the Supervisory Board held 8 meetings on the following dates:

- 29 January 2010 - 6 resolutions were adopted,
- 5 March 2010 - 8 resolutions were adopted,
- 22 April 2010 - 14 resolutions were adopted,
- 21 May 2010 - 2 resolutions were adopted,
- 6 July 2010 - 10 resolutions were adopted,
- 30 August 2010 - 2 resolutions were adopted,
- 27, 28 September - 4 resolutions were adopted,
- 12, 13 October - 5 resolutions were adopted,
- 20 October - 1 resolution was adopted.

Moreover, the Supervisory Board adopted resolutions by correspondence on the following dates:

- 9 June 2010 - 1 resolution was adopted,
- 11 October 2010 - 1 resolution was adopted.

During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. jointly adopted 54 resolutions.

IV. Supervisory Board Members' attendance at the meetings

The meeting of the Supervisory Board held on:

- 29 January 2010 - was not attended by Mr Krzysztof Maślankowski,
- 20 October 2010 - was not attended by Mr Andrzej F. Lulek.

The Supervisory Board considered their absences as justified and adopted relevant resolutions in this respect.

Other meetings were attended by all of the members of the Supervisory Board.

V. Significant issues addressed by the Supervisory Board

Within the scope of its operations, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. considered motions of the Management Board regarding issues which, according to the Company's Articles of Association, require the consent of the Supervisory Board.

During the meetings held in 2010, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues:

- restructuring processes,
- the Company's current situation as regards technical, economical, financial and social issues,
- the Company's Technical and Economic Plan, its correction and implementation,
- the rules and plan of running sponsoring activities of the LW Bogdanka Group in 2010,
- appointing the Central Election Committee,
- the election of the Management Board member elected by the Company's employees for the 7th term of office, i.e. for 2010-2012, information concerning the voting process,
- rules concerning the election of the President of the Management Board and Vice-Presidents of the Management Board of Lubelski Węgiel Bogdanka S.A. for the 7th term of office,
- issues submitted by the Management Board to the Annual General Shareholders Meeting,
- amendments to the Company's Articles of Association and its uniform text,
- the auditor's opinion and the audit report on the Company's financial statements for 2009 prepared by the auditor,
- the Company's Financial Statements, the Directors' Report on Operations, the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group and the Directors' Report on Operations and of the Group for 2009,
- Report on Operations of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as the Company's governing body for 2009,
- The Supervisory Board's Report on the assessment of the Company's Financial Statements for 2009 and Directors' Report on Operations for 2009,
- motion to the Annual General Shareholders Meeting to grant discharge to the members of the Management Board,
- Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Directors' Report on Operations of the Group for 2009,
- distribution of net profit for 2009,
- appointing an auditor to review the financial statements for the first half of 2010 and audit the Company's financial statements for 2010,
- assessment of the Company's exposure to key risks,
- establishing the Supervisory Board,
- appointing the Audit Committee,
- the motions submitted by the President of the Management Board to grant the annual award to the members of the Management Board for the financial year 2009,
- implementation of the internal audit within the organizational structure of the Company,
- legal opinions concerning implementation of the provisions of the Act on Commercialisation and Privatisation within the scope of employees' rights to elect their representatives to the Company's bodies, i.e. the Management Board and the Supervisory Board,

- recommendation concerning the appointment of an advisor on the option plan and determining a further course of action in order to implement it,
- discussing the Company's results for the first half of 2010 – periodic report,
- proposal concerning the provisions of employment agreements with members of the Management Board,
- concluding a donation agreement with the municipality of Wilków,
- concluding the agreement between the Company and the member of the Management Board on stipulating the remuneration for the co-author of the invention,
- purchasing plots of land,
- the Management Board's information on the sale of coal and significant decisions of customers,
- motions resulting from the fairness opinion prepared by the consultancy company – Rothschild, the schedule detailing measures concerning the protection of the Company's assets.

In 2010 the Supervisory Board monitored an increase in the average remuneration at the Company. The Supervisory Board acquainted itself with the results of negotiations held between the Management Board and the trade unions, which resulted in establishing the rate of an average increase in monthly remuneration at 3.6% of the average remuneration in 2009.

The average remuneration at the Company in 2010 amounted to PLN 6,366.77 which constitutes an increase of 3.59% compared with 2009 and complies with the agreement concluded with the trade unions. The increase in the level of the average remuneration did not adversely affect the Company's profitability or management efficiency, nor did it limit its investment operations.

VI. List of resolutions adopted by the Supervisory Board in 2010

Date of the meeting	Resolution No.	Resolution on:
29 January 2010	32/VII/2010	issuing an opinion on the Company's Technical and Economic Plan for 2010
	33/VII/2010	initiating the verification procedure and establishing requirements for the candidates for the Company's Management Board members and the schedule for conducting this procedure
	34/VII/2010	adopting the "Rules of Procedure for Appointing to and Removal from Office of Members of the Management Board of Lubelski Węgiel Bogdanka S.A. Elected by the Company's Employees"
	35/VII/2010	declaring the elections of the Management Board member elected by the Company's employees for the 7th term of office, i.e. for 2010-2012
	36/VII/2010	appointing the Central Election Committee
	37/VII/2010	justifying the absence of the Supervisory Board member
5 March 2010	38/VII/2010	approving the report on opening the proposals and admitting the candidates to the next stage of the verification procedure for the positions of the President of the Management Board and Vice-Presidents of the Management Board for the 7th term of office
	39/VII/2010	determining the rules concerning the election of the President

		of the Management Board and Vice-Presidents of the Management Board of Lubelski Węgiel Bogdanka S.A. for the 7th term of office,
	40/VII/2010	appointing the President of the Management Board for the 7th term of office
	41/VII/2010	appointing the Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant, for the 7th term of office
	42/VII/2010	appointing the Vice-President of the Management Board, Trade and Logistics, for the 7th term of office
	43/VII/2010	appointing the Vice-President of the Management Board, Technical Affairs, for the 7th term of office
	44/VII/2010	approving the Report on verification procedure of candidates for the President and Vice-Presidents of the Management Board and for the 7th term of office
	45/VII/2010	approving the rules and plan of running sponsoring activities of the LW Bogdanka Group in 2010
22 April 2010	46/VII/2010	approving the minutes of the meeting held by the Audit Committee
	47/VII/2010	assessment of the Company's Financial Statements for the financial year 2009
	48/VII/2010	assessment of the Directors' Report on Operations of the Company for the financial year 2009
	49/VII/2010	assessment of the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka S.A. Group for the financial year 2009
	50/VII/2010	approval of the Directors' Report on Operations of the Lubelski Węgiel Bogdanka S.A. Group for the financial year 2009
	51/VII/2010	assessment of the Management Board's motion regarding the distribution of net profit for 2009
	52/VII/2010	approving the Report on Operations of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as the Company's governing body for 2009
	53/VII/2010	approving the Supervisory Board's Report on the assessment of the Company's Financial Statements and Directors' Report on Operations for 2009, and the Management Board's motion regarding the distribution of net profit
	54/VII/2010	approving the Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Directors' Report on Operations of the Group for 2009,
	55/VII/2010	the motion to the Annual General Shareholders Meeting to grant discharge to the President of the Management Board
	56/VII/2010	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management Board
	57/VII/2010	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management

		Board
	58/VII/2010	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management Board
	59/VII/2010	the motion to the Annual General Shareholders Meeting to grant discharge to the Member of the Management Board
21 May 2010	60/VII/2010	providing the opinion on the Management Board's motion regarding the amendments to the Company's Articles of Association
	61/VII/2010	selecting the auditor to review the Financial Statements for the first half of 2010
9 June 2010 Circular resolution	62/VII/2010	signing annexes to employment contracts held by the Members of the Management Board
6 July 2010	63/VII/2010	electing the Chairman of the Supervisory Board
	64/VII/2010	electing the Vice-Chairman of the Supervisory Board
	65/VII/2010	electing the Secretary of the Supervisory Board
	66/VII/2010	appointing the Audit Committee
	67/VII/2010	approval of the uniform text of the Company's Articles of Association
	68/VII/2010	signing annexes to employment contracts held by the Members of the Management Board
	69/VII/2010	granting annual bonus to the President of the Management Board for the financial year 2009
	70/VII/2010	granting annual bonus to the Vice-President of the Management Board, Trade and Logistics, for the financial year 2009
	71/VII/2010	granting annual bonus to the Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant, for the financial year 2009
	72/VII/2010	granting annual bonus to the Vice-President of the Management Board, Technical Affairs, for the financial year 2009
30 August 2010	73/VII/2010	selecting an advisor to prepare a feasibility concept of an Incentive Scheme
	74/VII/2010	approving a donation agreement with the municipality of Wilków
27-28 September 2010	75/VII/2010	providing an opinion on the "Strategy for Sponsoring Activities of Lubelski Węgiel Bogdanka in 2010-2014" and approving the conclusion by the Company of sponsoring agreements
	76/VII/2010	selecting an auditor to audit of the Company's Financial Statements for 2010 and the Consolidated Financial Statements of the Group for 2010
	77/VII/2010	concluding the agreement between the Company and Mr Mirosław Taras, the President of the Management Board on stipulating the remuneration for the co-author of the invention
	78/VII/2010	purchasing plots of land with an area of 21.1 ha

11 October 2010 Circular resolution	79/VII/2010	approving the conclusion of an agreement with the investment bank, Rothschild Polska Sp. z o.o., for the provision of advisory services
13 October 2010	80/VII/2010	concluding an employment contract with the President of the Board
	81/VII/2010	concluding an employment contract with the Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant
	82/VII/2010	concluding an employment contract with the Vice-President of the Management Board, Technical Affairs
	83/VII/2010	concluding an employment contract with the Vice-President of the Management Board, Trade and Logistics
	84/VII/2010	adjusting the Company's technical and economic plan for 2010
20 October 2010	85/VII/2010	justifying the absence of the Supervisory Board member

VII. Information on the activities of the Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2010.

The Audit Committee is composed of three members, at least one of whom shall be an independent member, subject to Article 8.4 of the Rules of Procedure of the Supervisory Board, and at least one shall possess competence and experience with regard to finance and accounting.

The task of the Audit Committee is providing advisory assistance to the Supervisory Board in matters of appropriate implementation of budget and financial reporting and internal control of the Company and its Group, as well as cooperation with chartered auditors auditing the Company's Financial Statements.

According to the Rules of Procedure of the Supervisory Board, the tasks of the Audit Committee include in particular:

- review of interim and annual financial statements of the Company (separate and consolidated),
- cooperation with the chartered auditor auditing the Financial Statements of the Company and recommending to the Supervisory Board the auditor to be selected,
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements of the Company, and
- providing the Supervisory Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

From 28 May 2009 to 10 June 2010, the Audit Committee appointed by virtue of the Supervisory Board's Resolution No. 4/VII/2009, operated in the following composition:

1. Henryk Czapla - Chairman
2. Adam Partyka - Secretary
3. Grażyna Dec.

On 15 February 2010, in Lublin, the above listed members of the Audit Committee held a meeting with the representatives of the auditor, PricewaterhouseCoopers, i.e.: Mr Tomasz Reinfuss and Mr Maciej Kotuła. The auditor's representatives discussed key issues regarding the audit of the financial statements:

- a. Scope and status of the work carried out,
- b. Key accounting matters and risks related to the financial statements,

- provision for real property tax,
- employee actions,
- risk of fraud,
- c. Material estimates,
 - provision for the mine closure costs,
 - actuarial assumptions,
 - test for the permanent impairment of the Ceramics Plant.

As a new composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. was appointed on 10 June 2010, during the first meeting of the Supervisory Board held on 6 July 2010, the Audit Committee was appointed in the following composition:

1. Eryk Karski,
2. Ewa Pawluczuk,
3. Jadwiga Kalinowska.

The Audit Committee established itself by means of appointing:

1. The Chairman: Ms Ewa Pawluczuk,
2. Secretary: Ms Jadwiga Kalinowska.

On 30 August 2010, the Audit Committee, with the assistance of the Internal Audit and Control Department, carried out a thorough analysis of the proposals for the audit of the Company's Financial Statements for 2010 and the Consolidated Financial Statements of the Group for 2010 prepared in accordance with the International Accounting Standards (IAS). The analysis covered:

- information on the bidder,
- representation of the Contractor,
- representation on compliance with statutory conditions to express unbiased opinion,
- information and documents proving the knowledge of the Company's industry,
- net price (PLN),
- list of competence of at least 10 employees,
- number of chartered auditors employed,
- names of persons to carry out the audit,
- methods and dates of auditing the Financial Statements, proposed schedules of work,
- list of companies audited during the last three years, operating in the mining industry and disclosing sales revenue of more than PLN 500 million,
- third-party liability insurance policy with respect to their business activity with a sum insured of not less than PLN 200,000,
- draft contract.

The Audit Committee found all proposals meeting the tender requirements and moved that the Supervisory Board make a preliminary selection of entities with best result, i.e. PricewaterhouseCoopers, KPMG, Deloitte and Ernst&Young Audit.

On 28 September 2010, the Audit Committee analysed additional price offers submitted and recommended to the Supervisory Board to appoint PricewaterhouseCoopers Sp. z o.o. or Ernst&Young Audit Sp. z o.o. as the best entities to audit the Financial Statements for 2010. Based on this recommendation and on the opinion of Ms Krystyna Borkowska, the Vice-President, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o., by virtue of Resolution No. 76/VII/2010.

On 20 December 2010, the Audit Committee held a meeting with the representatives of PricewaterhouseCoopers Sp. z o.o., where the scope of the audit of separate and consolidated Financial Statements for 2010 was discussed. The parties also reviewed the cooperation with PricewaterhouseCoopers Sp. z o.o. with respect to other agreements. The head of the Audit and

Internal Control Department presented information on tasks performed in 2010. Plan of work for 2011 was discussed. Information on tasks carried out in 2010 as well as the plan of work for 2011 was presented by the Risk Management Coordinator. Vice-President of the Board for Economic and Financial Affairs described accounting policy and material accounting estimates and judgements.

VIII. Changes in the composition of the Management Board introduced by the Supervisory Board

2010 was the last year of the 6th term of office of the Management Board acting in the following composition:

1. Mirosław Taras - President of the Management Board,
2. Zbigniew Stopa - Vice-President of the Management Board for Technical Affairs,
3. Waldemar Bernaciak - Vice-President of the Management Board for Trade and Logistics,
4. Krystyna Borkowska - Vice-President of the Management Board for Economic and Financial Affairs, Chief Accountant,
5. Janusz Chmielewski - Member of the Management Board elected by the employees, Chief Engineer - Head of Mining Supervision in Mining Facility.

In the reporting year, the Supervisory Board conducted a competition for the members of the Management Board of the 7th term of office.

Following the qualification procedure, on 5 March 2010, the Supervisory Board appointed, with effect from the date of the Annual General Shareholders Meeting approving the financial statements for 2009, the following persons to perform as the members of the Management Board of the 7th term of office:

1. Mirosław Taras - President of the Management Board,
2. Zbigniew Stopa - Vice-President of the Management Board for Technical Affairs,
3. Waldemar Bernaciak - Vice-President of the Management Board for Trade and Logistics,
4. Krystyna Borkowska - Vice-President of the Management Board for Economic and Financial Affairs, Chief Accountant.

On 10 March 2010, the elections of a member of the Management Board elected by the employees were carried out. None of the candidates received an absolute majority of votes, therefore, at the meeting on 11 March 2010, the Central Election Committee scheduled the next elections to take place on 23 March 2010. As a result of voting, Mr Lech Tor received an absolute majority of votes necessary to be elected as a Management Board member.

On 30 August 2010, the Supervisory Board acquainted itself with legal opinions concerning application of the provisions of the Act on Commercialisation and Privatisation with respect to the employees' rights to elect their representatives to the Company's bodies, i.e. the Management Board and the Supervisory Board.

A resolution on appointing Mr Lech Tor as a member of the Management Board elected by the employees was not adopted.

As at 31 December 2010, the composition of the Management Board of Lubelski Węgiel BOGDANKA S.A. was as follows:

1. Mirosław Taras - President of the Management Board,
2. Zbigniew Stopa - Vice-President of the Management Board for Technical Affairs,
3. Waldemar Bernaciak - Vice-President of the Management Board for Trade and Logistics,
4. Krystyna Borkowska - Vice-President of the Management Board for Economic and Financial Affairs, Chief Accountant.

On 3 March 2011, the Supervisory Board adopted a resolution on appointing Mr Lech Tor as a member of the Management Board elected by the employees for the 7th term of office.

IX. Information on appointing a chartered auditor

In order to audit the Company's Financial Statements and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for 2010 drawn up in accordance with the International Accounting Standards (IAS), and to prepare written opinions and reports on whether the Financial Statements are correct and present in a reliable and clear manner the financial standing and financial results of the Company and the Group, having conducted a tender, the Supervisory Board by virtue of Resolution No. 76/VII/2010 of 28 September 2010, appointed PricewaterhouseCoopers Sp. z o.o. as the auditor.

By virtue of Resolution No. 61/VII/2010 of 21 May 2010, PricewaterhouseCoopers Sp. z o.o. was also selected to review the Company's Financial Statements and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the first half of 2010 drawn up in accordance with the International Accounting Standards (IAS).

X. Assessment of the Company's position, the system of internal control and the system of risk management

Assessment of the Company's position

Acting under Article 382.3 of the Commercial Companies Code and Article 32.1.1 of the Company's Articles of Association, the Supervisory Board has read the Directors' Report on Operations of the Company for the reporting period, i.e. from 1 January 2010 to 31 December 2010 and has made an assessment thereof. The Supervisory Board states that the information included in that Report is complete and conforms to the information included in the Financial Statements as well as the facts. The Report presents the Company's position and all material events in an exhaustive and reliable manner.

The results achieved by LW Bogdanka S.A. in 2010 are record-breaking in the Company's history and they are mostly higher than those assumed in the Technical and Economic Plan for 2010, i.e.:

- gross production of coal – 100.20% of the plan performed,
- net production of coal – 101.70% of the plan performed,
- sales of coal (volume) – 99.51% of the plan performed,
- selling price of coal – 100.36% of the plan performed,
- result on sales of coal – 131.19% of the plan performed,
- gross financial result – 112.27% of the plan performed,
- net financial result – 113.32% of the plan performed.

The aggregate revenue on sales was at the level exceeding PLN 1,221,539,500 and net profit amounted to PLN 227,362,300.

Due to the production and sales results achieved in 2010, the Company's share in the Polish hard coal production market amounts to 7.64% and in the domestic coal sales market – 8.88%.

Assessment of the internal control system

The Supervisory Board states that in 2010 a system of internal control was in place at the Company. It was adjusted to the scale of operations and organisational structure, and its purpose was to provide

effective and efficient functioning of the organisation, reliability of the financial reporting as well as compliance of the LWB's activities with the provisions of law and internal regulations.

Comprehensive internal control system was determined in particular by:

- Organisational Rules of Procedure,
- internal instructions, regulations and procedures,
- Rules of Internal Control.

Monitoring and controlling operations are performed also by a separated organisational unit - the Audit and Internal Control Department which submits the results of its operations to the Company's Management Board, enabling it to make appropriate decisions.

An annual work schedule of the Audit and Internal Control Department is defined by tasks determined taking into account risks occurring at the Company and approved by the President of the Company's Management Board.

As a result of internal controls performed in 2010, post-control instructions were issued – the Instructions of the President of the Management Board – which were implemented.

Assessment of the risk management system

The list of risks occurring at the Company was defined in the Issue Prospectus, published by the LWB on 14 May 2009, and then each time described in the Directors' Reports on Operations of the Company.

Risks were identified by the management responsible for the most important processes at the Company, and managed through the activities of particular departments of the Company. The risks managed by the management of the enterprise belong to the following areas:

- strategic,
- operating,
- financial,
- legal.

Risk management within the above areas is performed directly by the owners of the most significant risks identified, which may significantly affect the activity of the enterprise. Such management consists in risk identification, its quantitative and qualitative assessment as well as monitoring thereof and developing scenarios of action within the areas exposed to its materialisation.

The Company has undertaken organisational actions to develop a new model of systemic risk management in the enterprise. For that purpose, a consulting company has been selected and works on a system that shall be adjusted to the specific nature of the Company's activities.

Within the framework of organisation of the new risk management system, a Risk Coordinator, whose main role at this stage will be to implement the adopted system, has been appointed.

According to the Supervisory Board, the Management Board properly identifies and successfully manages risks occurring within the Company's activities.

XI. Cooperation of the Supervisory Board and the Management Board of the Company

Within the framework of rights and powers held, the Supervisory Board provided the Management Board with active support in implementation of the Company's goals for 2010, analysing and assessing issues submitted to the meetings by the Company's Management Board.

The Supervisory Board states that in Lubelski Węgiel Bogdanka S.A. the principles of the corporate governance are observed in compliance with the "Code of Best Practice for WSE Listed Companies" adopted by the Company for execution, and the Management Board's position with respect to the

observance of the above principles is published by the Company in the form of current reports and put on the website www.lw.com.pl in the Investors Relations tab.

The Supervisory Board positively assesses the cooperation with the Company's Management Board in 2010 as well as the administrative and organisational security of work of the Board and the Audit Committee.

XII. Assessment of work of the Supervisory Board of Lubelski Węgiel Bogdanka S.A.

In the reporting period, the Supervisory Board exercised continuous supervision over the Company's activities in all areas of its operations. These activities included:

- analysis of financial results with respect to the purposefulness and rationality, and
- analysis of information obtained from the Management Board concerning the Company's activities.

Members of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. exercised due diligence in performance of their duties, using their knowledge and experience within the scope of running and supervising commercial companies. Due to their high competence and engagement of individual Board Members and efficient organisation, the Supervisory Board effectively performed its statutory duties.

The Supervisory Board applies for reviewing and approving this Report and granting discharge to the Members of the Supervisory Board in respect of performance of their duties in the financial year 2010.

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka:

1. Eryk Karski	Chairman of the Board	...[signature]...
2. Stefan Kawalec	Vice-Chairman of the Board	...[signature]...
3. Jadwiga Kalinowska	Secretary of the Board	...[signature]...
4. Ewa Pawluczuk	Member of the Board	...[signature]...
5. Andrzej Lulek	Member of the Board	...[signature]...
6. Adam Partyka	Member of the Board	...[signature]...

Bogdanka, 14 April 2011