



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD
OF LUBELSKI WĘGIEL BOGDANKA S.A.
FOR THE FINANCIAL YEAR 2015**

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I. Term of office and composition of the Supervisory Board

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. (hereinafter referred to as the "Supervisory Board", or the "Board") exercises permanent supervision over LW Bogdanka S.A. (hereinafter LWB S.A., LW Bogdanka S.A., the Company) in all areas of the Company's operations.

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

- the Polish Commercial Companies Code;
- the Articles of Association of Lubelski Węgiel BOGDANKA S.A.,
- the 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 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.

The year 2015 was the last year when the Supervisory Board operated in the following composition:

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|----------------------|--|
| 1. Witold Daniłowicz | - Chairman of the Supervisory Board |
| 2. Stefan Kawalec | - Deputy Chairman of the Supervisory Board |
| 3. Raimondo Eggink | - Secretary of the Supervisory Board |
| 4. Robert Bednarski | - Member of the Supervisory Board |
| 5. Dariusz Formela | - Member of the Supervisory Board |
| 6. Eryk Karski | - Member of the Supervisory Board |
| 7. Tomasz Mosiek | - Member of the Supervisory Board |
| 8. Michał Stopyra | - Member of the Supervisory Board |

On 18 June 2015 an Annual General Shareholders Meeting was held, during which members were appointed to the Supervisory Board for the 9th term of office:

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| 1. Witold Daniłowicz | - Chairman of the Supervisory Board |
| 2. Stefan Kawalec | - Deputy Chairman of the Supervisory Board |
| 3. Raimondo Eggink | - Secretary of the Supervisory Board |
| 4. Robert Bednarski | - Member of the Supervisory Board |
| 5. Dariusz Formela | - Member of the Supervisory Board |
| 6. Eryk Karski | - Member of the Supervisory Board |
| 7. Tomasz Mosiek | - Member of the Supervisory Board |
| 8. Michał Stopyra | - Member of the Supervisory Board |

On 28 October 2015 Raimondo Eggink submitted to the Company's Management Board a statement on his resignation from the position of the member of the Supervisory Board of LWB S.A. with immediate effect.

On 16 November 2015 an Extraordinary General Shareholders Meeting was held, during which the following members were removed from the Supervisory Board: Witold Daniłowicz, Stefan Kawalec, Robert Bednarski, Dariusz Formela, Eryk Karski and Tomasz Mosiek. Then new members were appointed to the Supervisory Board, for individual terms of office, in the following composition:

1. Dalida Gefpert - Chairman of the Supervisory Board
2. Paweł Orłof - Deputy Chairman of the Supervisory Board
3. Krzysztof Matan - Secretary of the Supervisory Board
4. Magdalena Kaczmarek - Member of the Supervisory Board
5. Bartosz Krysta - Member of the Supervisory Board

On 9 December 2015 Paweł Orłof submitted to the Company's Management Board a statement on his resignation from the position of the member of the Supervisory Board of LWB S.A. with the effect as at 8 December 2015.

The composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as at 31 December 2015 was as follows:

1. Dalida Gefpert - Chairman of the Supervisory Board
2. Krzysztof Matan - Secretary of the Supervisory Board
3. Magdalena Kaczmarek - Member of the Supervisory Board
4. Bartosz Krysta - Member of the Supervisory Board
5. Michał Stopyra - Member of the Supervisory Board

On 14 January 2016 Dalida Gefpert submitted to the Company's Management Board a statement on her resignation from the position of the member of the Supervisory Board of LWB S.A. with the effect as at 14 January 2016.

On 23 February 2016 an Extraordinary General Shareholders Meeting was held, during which the following members were removed from the Supervisory Board: Krzysztof Matan and Bartosz Krysta. Then, the following persons were appointed to the Supervisory Board:

1. Mirosław Kowalik - Chairman of the Supervisory Board
2. Wiesław Piosik - Deputy Chairman of the Supervisory Board
3. Szymon Jankowski - Secretary of the Supervisory Board
4. Magdalena Kaczmarek - Member of the Supervisory Board
5. Przemysław Krasadomski - Member of the Supervisory Board

It was the composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. (including Michał Stopyra) as at the day of publishing the Report.

Until 16 November 2015 all members of the Supervisory Board fulfilled the independency criteria within the meaning of Article 34.5 of the Company's Articles of Association; in the new composition of the Supervisory Board the criterion is met only by Michał Stopyra.

II. Meetings of the Supervisory Board, material issues and the number of resolutions adopted

Meetings of the Supervisory Board in 2015 were convened by the Chairman of the Supervisory Board and President of the Management Board (26 June 2015 and 23 November 2015). Dates of holding meetings were each time agreed by all of the members of the Supervisory Board.

In the reporting period the Supervisory Board held 12 meetings. Resolutions were also adopted by correspondence. During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. adopted in total 47 resolutions.

Mr Raimondo Eggink did not participate in the meeting of the Supervisory Board on 25 August 2015; the Supervisory Board justified his absence and adopted a relevant resolution in relation thereto. Other Supervisory Board meetings were attended by all members.

During the meetings held in 2015, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues:

- the Company's and the Group's current situation as regards economic, financial and social issues;
- status of the investment in the Stefanów Field, and status of the performance of agreement with Mostostal Warszawa S.A.;
- work connected with obtaining mining licences;
- findings of the examination of the Company's organisational culture, carried out by Millward Brown;
- manner of exercising miners' right to regeneration meals;
- position on changes in the Company's Collective Bargaining Agreement;
- update of the strategy;
- the Company's Technical and Economic Plan 2015, its execution and works on the TEP project for 2015;
- Audit Plan 2015 and 2016-2017;
- proposition of changes in the Articles of Association; adopting uniform text of the Articles of Association;
- evaluation of MBO objectives for the Management Board for 2014, determining MBO objectives for 2015;
- activities taken by the government due to the current situation in the industry, including a draft of a petition to the European Commission regarding public aid;
- the Management Board's information on the plan for Company's restructuring in case of a fall in coal sales and coal prices;
- information of the internal auditor on: internal control and risk management systems, risk map and an audit of correctness of procedures for the supply of ploughing system for low seams;
- information on operation of the Supervisory Board committees;
- the Management Board's information on the status of implementation of the Operational Costs Reduction Programme;
- the Management Board's information on the compliance with Code of Best Practice for WSE Listed Companies;
- audit opinions and reports on the Company's financial statements for 2014 prepared by the auditor;
- Company's financial statements for 2014;
- Director's Reports on Operations of the Company and of the Group for 2014;
- report of the Supervisory Board for 2014;
- distribution of net profit for 2014;
- matters to be covered by resolutions of the Annual General Shareholders Meeting;
- granting MBO 2014 annual bonuses and discretionary bonuses;
- stating that conditions authorising to exercising Options have been met;
- self-assessment of the Supervisory Board;
- the Management Board's information on activities aiming at increasing coal sales, in particular by strengthening the sales department and gaining new sales markets;
- the Management Board's information on activities of Łęczyńska Energetyka sp. z o.o.;
- review of historic costs of functioning of the Supervisory Board and assumptions for the Board's future budget;

- selection of an entity authorised to audit the financial statements for 2015-2017;
- appointment of members of the Audit Committee, the Appointment and Remuneration Committee, and the Strategy Committee;
- the Management Board's information on the status of contract negotiations with key customers;
- the Management Board's information on the analysis of the financial statements and sources of financing of KW S.A.;
- the Management Board's information on synergies that may result from a merger of the mine with an energy producer;
- the Management Board's information on the occupational health and safety;
- the Management Board's information on emergency plan in case of strikes;
- the Management Board's information on a plan for the management personnel succession;
- the Management Board's information on the tender offer announced by ENEA S.A.;
- employment of technical and HR advisor to the Supervisory Board;
- system of remunerating in the context of new situation at the Company;
- consent for the acquisition of a land real property for the waste rock pile;
- dismissal of the Company's Management Board and terminating employment agreements with certain members of the Management Board;
- appointing a new Management Board and concluding agreements with members of the Management Board; terms of payment and amounts of remuneration for the members of the Management Board;
- legal conditions connected with providing information by LWB S.A. to ENEA S.A.

The Supervisory Board have read the summary, presented by the Management Board, of implementing recommendations from audits of the selected areas of the Company's operations, carried out by Ernst&Young and SRK, and the related results for 2012-2015. The Supervisory Board positively assessed the Management Board's actions in the areas indicated by the auditors, i.e. budgeting, conducting tender procedures, increasing competitiveness, and avoiding conflicts of interest.

On 17 September 2015, the Supervisory Board adopted a resolution regarding a demand to employ Spencer Stuart as an advisor to assess the members of the Management Board and support the Supervisory Board in the recruitment processes.

Resolutions adopted by the Supervisory Board in 2015:

Minutes No.	Date	Resolution No.	Regarding
32/VIII/2015	06.02.2015	137/VIII/2015	adopting Audit Plan for 2015 and 2016-2017
		138/VIII/2015	approving the Company's Technical and Economic Plan for 2015
33/VIII/2015	27.02.2015	139/VIII/2015	assessing the achievement of qualitative objectives of the Management Board for 2014 in accordance with the MBO
		140/VIII/2015	assessing the achievement of solidarity objective for the Management Board for 2014 in accordance with the MBO incentive system
34/VIII/2015	01.04.2015	141/VIII/2015	approving the Annex on investment expenditure for 2015,

			including expenditure up until 2017
35/VIII/2015	05.05.2015	142/VIII/2015	assessing the Company's financial statements for 2014
		143/VIII/2015	assessing the Management Board's motion regarding distribution of net profit for 2014
		144/VIII/2015	not granting the annual bonus for 2014 to the President of the Management Board, Zbigniew Stopa, and the Vice-President of the Management Board, Waldemar Bernaciak
		145/VIII/2015	granting the annual bonus for 2014 to the Vice-President of the Management Board, Roger de Bazelaire
		146/VIII/2015	granting the annual bonus for 2014 to the Vice-President of the Management Board, Krzysztof Szlaga
		147/VIII/2015	granting a discretionary bonus for 2014 to the President of the Management Board, Zbigniew Stopa
		148/VIII/2015	granting a discretionary bonus for 2014 to the Vice-President of the Management Board, Waldemar Bernaciak
		149/VIII/2015	stating that conditions authorising to exercising Options for 2014 have been met
		150/VIII/2015	providing opinion on the Management Board's motion regarding amendments in the Company's Articles of Association
		151/VIII/2015	motion to the Annual General Shareholders Meeting for granting discharge to the members of the Management Board for the performance of duties in 2014
		152/VIII/2015	approving the Company's Technical and Economic Plan for 2015
		153/VIII/2015	setting objectives for the Management Board for 2015 in accordance with the MBO
			motion to the Annual General Shareholders Meeting for granting discharge to the members of the Management Board for the performance of duties in 2014
		154/VIII/2015	approving the Report of the Supervisory Board for 2014
36/VIII/2015	09.06.2015	No resolutions were adopted	
37/VIII/2015	17.06.2015	No resolutions were adopted	
1/IX/2015	26.06.2015	1/IX/2015	appointing the Chairman of the Supervisory Board
		2/IX/2015	appointing the Deputy Chairman of the Supervisory Board
		3/IX/2015	appointing the secretary of the Supervisory Board
		4/IX/2015	adopting uniform text of the Articles of Association
		5/IX/2015	selecting an entity authorised to audit of the Company's financial statements
		6/IX/2015	appointing the members of the Audit Committee
		7/IX/2015	appointing the members of the Appointment and Remuneration Committee

		8/IX/2015	appointing the members of the Strategy Committee
2/IX/2015	16.07.2015	No resolutions were adopted	
By corresp.	03.08.2015	9/IX/2015	approving the Company's Technical and Economic Plan for 2015
		10/IX/2015	demand to carry out a tender procedure for the selection of technical advisor for the Supervisory Board
3/IX/2015	25.08.2015	11/IX/2015	justifying an absence of a member of the Supervisory Board
4/IX/2015	17.09.2015	12/IX/2015	demand to employ a HR advisor
By corresp.	18.09.2015	13/IX/2015	convening an Extraordinary General Shareholders Meeting
By corresp.	06.10.2015	14/IX/2015	concluding an Arrangement Agreement with Mr Krzysztof Szlaga
5/IX/2015	20.10.2015	15/IX/2015	granting consent for the purchase of land real property for the development of mining waste pile
1/2015	23.11.2015	1	adopting the agenda
		2	appointing the Chairman of the Supervisory Board
		3	appointing the Deputy Chairman of the Supervisory Board
		4	appointing the secretary of the Supervisory Board
		5	appointing the members of the Audit Committee
		6	dismissing the members of the Management Board, termination of employment contracts with Yves Marie Gerard Roger de Bazelaire de Bouchepon and Krzysztof Szlaga
		7	appointing the Management Board in the following composition: Zbigniew Stopa, Waldemar Bernaciak, Jakub Stęchły, Piotr Janicki
		8	defining the remuneration for the members of the Management Board
		9	concluding an agreement on terminating an employment agreement and an NDA, and concluding a civil law contract for management services, an NDA, and an agreement for providing work tools for use, with Mr Zbigniew Stopa
		10	concluding an agreement on terminating an employment agreement and an NDA, and concluding a civil law contract for management services, an NDA, and an agreement for providing work tools for use, with Mr Waldemar Bernaciak
		11	concluding a civil law contract for management services, an NDA, and an agreement for providing work tools for use, with Mr Piotr Janicki
		12	concluding a civil law contract for management services, an NDA, and an agreement for providing work tools for use, with Mr Jakub Stęchły
By corresp.	30.12.2015	13	approving the Company's Technical and Economic Plan

			for 2016
By corresp.	30.12.2015	14	approving the sponsorship strategy for the first half of 2016

III. Information on the activities of the Supervisory Board Committees

Until 16 November 2016, the Audit Committee operated in the following composition:

1. Eryk Karski – Chairman,
2. Robert Bednarski,
3. Raimondo Eggink,
4. Tomasz Mosiek.

In relation to appointing a new composition of the Supervisory Board on 16 November 2015, on the first meeting of the Company's Supervisory Board of LW Bogdanka S.A., on 23 November 2015, a new Audit Committee was appointed in the following composition:

1. Dalida Gepfert - Chairman,
1. Magdalena Kaczmarek,
2. Michał Stopyra.

In 2015, 7 meetings of the Audit Committee were held on the following dates:

- 10 March 2015
- 1 April 2015
- 28 April 2015
- 17 June 2015
- 18 August 2015
- 17 September 2015
- 28 October 2015

In 2015 meeting of the Audit Committee were held in line with the schedule. The Audit Committee regularly held meetings with the Head of Audit and Internal Control Department with a view to learning about the findings of audits and controls carried out and implemented recommendations, as well as with the Head of the Risk Management Department, in order to review the ERM functioning at the Company. Each time before the financial statements and Directors' Reports on Operations are published, they are subject to a review by the Audit Committee which analysed the following issues:

- methodology of calculating unused production capacities, on the basis of stocks of coal piled on heaps;
- rationale for outsourcing the works on the central air conditioning at the Company to Łęczyńska Energetyka;
- daily level of the Company's production capacities;
- principles of dividing the costs into fixed and variable costs (in particular regarding personnel costs);
- planned sales volume;
- increase in FCFF by a change in the growing employee provisions;

- issues concerning the WACC calculations;
- issues concerning the impairment loss test;
- degree of using the ploughing system IV;
- property, plant and equipment intended for sale.

In relation to appointing a new composition of the Supervisory Board on 23 February 2016, on the first meeting of the Company's Supervisory Board of LW Bogdanka S.A., on 3 March 2016, a new Audit Committee was appointed in the following composition:

1. Przemysław Krasadomski – Chairman,
2. Magdalena Kaczmarek,
3. Michał Stopyra.

Appointment and Remuneration Committee

Until 16 November 2015 the Appointment and Remuneration Committee operated in the following composition:

1. Dariusz Formela – Chairman,
2. Stefan Kawalec,
3. Tomasz Mosiek.

In 2015, meetings of the Appointment and Remuneration Committee were held 4 times on the following dates:

- 12 February 2015
- 26 February 2015
- 18 June 2015
- 8 September 2015

The Appointment and Remuneration Committee evaluated the achievement of quantitative and qualitative objectives by the Management Board and the solidarity objective for 2014 in the framework of the MBO, it prepared a Charter of Objectives for 2015.

The Committee prepared a recommendation for the Supervisory Board regarding the selection of a personal advisor.

Strategy Committee

Until 16 November 2015, the Strategy Committee operated in the following composition:

1. Stefan Kawalec – Chairman,
2. Raimondo Eggink,
3. Michał Stopyra.

In 2015, 6 meetings of the Strategy Committee were held on the following dates:

- 18 February 2015
- 10 March 2015
- 2 April 2015

- 24 April 2015
- 30 April 2015
- 15 June 2015

The Strategy Committee, during its meetings in 2015, analysed the following issues:

- government actions with respect to the mining industry;
- Directors' Report on Operations for 2014;
- issues related to an appropriate level of debt and its consequences for the dividend policy;
- review of initiatives which can improve LWB S.A.'s strategic situation;
- information on progress of works on detailed financial forecasts related to the pursuance of strategic scenario;
- information on progress of works on estimating sales volume thresholds below which the Company, even if the emergency plan is completed, will not be able to achieve positive results and financial flows, which can jeopardise its further functioning;
- recommendation motion regarding the distribution of net profit for 2014;
- issues related to the pursuance of strategy (advisory) towards actions taken by the competitors and public authorities, violating competition on the coal market.

Due to material changes on the hard coal market, there are ongoing works on updating the Company's Operation and Development Strategy, the Strategy Committee assessed the prepared update to the Company's Strategy.

IV. Composition of the Management Board

The Management Board of the 8th term of office operated until 23 November 2015. The newly appointed Supervisory Board of LW Bogdanka S.A. dismissed from the Management Board of LW Bogdanka S.A. the following persons:

- Zbigniew Stopa – President of the Management Board
- Waldemar Bernaciak – Vice-President of the Management Board, Trade and Logistics
- Yves Marie Gerard Roger de Bazelaire de Boucheporn – Vice-President of the Management Board, Economic and Financial Affairs
- Krzysztof Szlaga – Vice-President of the Management Board, Procurement and Investments.

The Supervisory Board of LW Bogdanka S.A. appointed to the Management Board of LW Bogdanka S.A. for the 9th term of office:

- Zbigniew Stopa – President of the Management Board
- Waldemar Bernaciak – Vice-President of the Management Board, Trade and Logistics
- Piotr Janicki – Vice-President of the Management Board, Economic and Financial Affairs
- Jakub Stęchły – Vice-President of the Management Board, Procurement and Investments.

On 24 March 2016 the Supervisory Board dismissed the entire Management Board of LW Bogdanka S.A. and appointed a new Management Board in the following composition:

- Krzysztof Szlaga – President of the Management Board,
- Stanisław Misterek – Vice-President of the Management Board, Economic and Financial Affairs
- Adam Partyka – Vice-President of the Management Board, Employee and Social Affairs.

Rules governing remuneration and bonus payments to the members of the Management Board

Rules of remuneration of the current Management Board members have been specified by the Company's Supervisory Board by virtue of Resolution No. 17 dated 24 March 2016 .

The remuneration to the members of the Management Board is paid on the basis of a civil law contract for management services. Main elements of of benefits under the agreement include:

1. Fixed monthly remuneration;
2. Annual bonus as a variable remuneration related to results;
3. The remuneration referred to in items 1 and 2 is increased by the due amount of social security contributions, in a portion charged to the Manager;
4. Severance pay in the amount of 3-fold monthly fixed remuneration, with respect to termination by the Company of the civil law contract with a member of the Management Board;
5. Compensation for non-competition following the expiry of the civil law contract, in the amount of a monthly fixed remuneration, resulting from the obligation made by the members of the Management Board not to undertake any competing activity within six months, paid in monthly instalments;
6. Additional benefits for the members of the Management Board include the use of a company car, as well as the use of tools and devices necessary to perform the duties of a member of the Management Board.

V. Information on appointing a chartered auditor

In order to review and audit the Financial Statements of Lubelski Węgiel Bogdanka S.A. and its subsidiaries, and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for 2015, 2016 and 2017 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, following a recommendation of the Audit Committee, by virtue of Resolution No. 5/IX/2015 of 26 June 2015, appointed Deloitte Polska Sp. z o.o. Sp. k. as the auditor.

According to the Auditor, the audited Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2015 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2015 were prepared, in all material aspects, in accordance with the International Financial Reporting Standards (IFRS) and related interpretations announced by way of Regulations of the European Union, and to the extent not regulated by those standards, as required by the Polish Accounting Act and executive regulations issued pursuant thereto, and on the basis of properly kept accounting books. The financial statements subject to assessment comply with the applicable provisions of law and the Company's Articles of Association affecting the content thereof, and present fairly and clearly all information material for evaluating the Company's profitability and profit (loss) on its operations in 2015, as well as the Company's financial and economic situation as at 31 December 2015. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the financial year 2015 and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2015 contain information on the Company that is true, consistent with the data contained in the financial statements, and they present fully and fairly the Company's situation, including all important events.

Deloitte, as an entity authorised to audit financial statements, as well as chartered auditors performing auditing activities for Lubelski Węgiel Bogdanka S.A. were independent of Lubelski Węgiel Bogdanka S.A. at the time of performance of the above activities, i.e. the circumstances referred to in Article 56.3 of the Chartered Auditors Act did not apply.

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, Deloitte performed:

- verification of the calculation of "Net debt/EBITDA" ratio, in accordance with the requirements of the Programme Agreement related to the issue of bonds (of 27 September 2013 and of 30 June 2014) and checking whether electricity consumption ratio was calculated correctly,
- workshops on hedge accounting,
- verification of data for the purposes of Respect Index.

VI. Assessment of the Company's situation, as well as the internal control and risk management systems

1. Financial results

During the four quarters of 2015, LW BOGDANKA S.A.'s revenue from the sale of coal amounted to PLN 1,883,118,000, which represented a decrease of PLN 127,381,000 compared to the revenue figure for the same period of 2014.

The main source of revenue for LW BOGDANKA during the four quarters of 2015 (and of 2014) was the production and sale of power coal. In the period from 1 January to 31 December 2015, this business generated 96.4% of the Company's revenue (95.8% in the same period of the previous year). The drop in coal sales is attributable to lower quantity of the coal sold (down by 5.8%).

2. Profitability ratios

The Company's profitability ratios stood at lower levels in 2015 compared to 2014.

Gross margin on sales of LW BOGDANKA went down from 18.4% (4 quarters of 2014) to -17.2% (4 quarters of 2015).

EBIT margin in the fourth quarter of 2015 was 89.8%, i.e. it was lower by 115.6 p.p. than in the fourth quarter of the previous year. EBIT for four quarters of 2015 is lower by 35.2 p.p. compared to the analogous period of 2014 and was -17.4%.

For four quarters of 2015, the Group's EBITDA margin amounted to 36.0%, i.e. less by 0.9 p.p. compared to the same period in 2014 (when EBITDA dropped in the analysed period by 8.6%). The Company's lower profitability was affected by the impairment loss of property, plant and equipment as well as of intangible assets. The impairment loss however is of a non-cash and non-recurring nature.

3. Coal production and sales

Lubelski Węgiel Bogdanka S.A. is a domestic leader on the market of thermal coal producers. In the period from January to December 2015, the production of commercial coal was 8,457,000 tonnes, i.e. it was lower by 8.0% than in the same period of 2014. The decline in coal production is connected to the adverse market situation (oversupply of coal), which means that the production of coal was effected without using full production capacities and is tailored to the level of sales and warehousing capacities of the Company.

In the period from 1 January 2015 to 31 December 2015, the sales of commercial coal were 8,562,000 tonnes, i.e. by 6.6% less than in the analogous period of 2014. This translated to revenue on sales of coal of PLN 1,815,441,000, which in consequence affected the value of total revenue of the Company, which in 2015 amounted to PLN 1,883,118,000 comparing to PLN 2,010,499,000 in the analogous period of the previous year.

4. Strategy

The revised Strategy:

In view of significant changes to market conditions, involving such factors as the purchase of controlling stake of shares by Enea S.A., a substantial decline in coal prices, the size of the coal reserves in Silesian mines and power plants and the government intervention plans in the mining and power engineering sector, the assumptions to the Strategy are being updated on an ongoing basis.

Due to the limited opportunities to sell, it has become necessary to reduce and adjust the production levels accordingly. The main objective for 2015 was defined as "securing cash" by significant savings in costs and investment plans, based on three primary assumptions:

- optimisation of production plan to approx. 8.5 million tonnes;

- significant reduction of the “permanent” headcount (by 400 persons) and limiting the outsourced services;
- cutting down on capital expenditures (LWB Group) to about PLN 380 million.

The above assumptions have been implemented, and as a result the Parent obtained better results in 2015 compared to other domestic companies in the mining industry. This made it possible to increase efficiency, while maintaining relative flexibility in terms of production capacity in the years to come.

In 2016, LW Bogdanka S.A. will continue to implement the optimisation actions and keep costs under strict control on the basis of a new production plan. At the same time, the Company is working on acquiring contracts with small and medium customers in Poland as well as larger contracts abroad (e.g. in Ukraine).

In connection with the changes to the Company’s shareholding structure, the Strategy for the subsequent years will be developed in correlation with the majority shareholder’s strategy. This will lead to synergies related to the sales and cost optimisation, and, in the long run, to increasing value for the shareholders.

VII. Assessment of the internal control system

The Supervisory Board is of the opinion that the internal control system in place at LW Bogdanka S.A. is appropriate for the scale of the Company’s business and for its organisational structure. The system is intended to ensure effective organisation, reliable financial reporting and LW Bogdanka S.A.’s compliance with the law and internal rules and regulations.

internal control system is determined in particular by:

- Company’s organisational rules;
- Accounting policy;
- Document workflow instruction;
- Internal regulations and procedures;
- Rules of Audit and Internal Control.

One of the key elements of control in the process of preparing the Company’s and the Group’s financial statements is a review carried out by independent chartered auditors. The chartered auditor is selected from a group of renowned auditing companies which guarantee independence and a high standard of the provided services. The independence factor of the chartered auditor is fundamental for ensuring the correctness of the audit. The body supervising the financial reporting process at the Company is the Audit Committee appointed by the Supervisory Board.

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW Bogdanka S.A. is the parent undertaking.

The Company’s internal control system is a multi-step system based on the employees’ self-control and functional control at all of the Company’s management levels. The most important coordination and supervisory role is played by the Company’s governing bodies, i.e. the Management Board and the Supervisory Board.

The financial data that is the basis for the preparation of periodic reports is based on the Company’s monthly financial reporting. Once the books for each calendar month are closed, the data is analysed by the Management Board in terms of the financial results for the individual operating areas and the achievement of the Company’s business objectives.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT finance and accounting system, forming part of the INTEGRA Integrated Management System. It provides conformity of accounting records and legislative regulations. Methods of controlling IT systems ensure comprehensiveness and certainty of undisturbed accounting information, and authorisation of all transactions. The systems used are password protected against access by unauthorised persons and have functional system and data access restrictions. Source documents, on

which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check.

The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements.

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 and to the Audit Committee, operating within the Company's Supervisory Board.

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

As a result of the audit and control tasks carried out in 2015, post-inspection instructions were issued (Instructions by the President of the Management Board). These are being implemented on an ongoing basis by technical units, which is contributing to applying new control mechanisms and an improvement of the way the Company's processes are organised.

The Supervisory Board is of the opinion that the internal control system in the Company functions properly and that the tasks carried out by the Audit & Internal Control Department help to improve and continuously enhance the system.

VIII. Assessment of the risk management system

Since 2011, a formalised corporate risk management system developed in cooperation with Deloitte - the ERM (Enterprise Risk Management) has been in place at the Company. In the 2012 reporting year, the Company and PBSG Sp. z o.o. of Poznań implemented an IT system (RISK Manager and Risk Portal) to support the Company's corporate risk management processes. The basic documents defining the concept, objectives, principles and process of risk management at the Company were verified and revised in this area in order to adapt them to IT solutions. The system covers all of the Company's areas of operation (organisational units) and is designed to identify potential events in terms of threats and opportunities for the Company.

The basic documents of the corporate risk management system in place at the Company include the following:

1. LW Bogdanka S.A. Corporate Risk Management Policy,
2. Model of corporate risk management in LW Bogdanka S.A. - ERM procedures,
3. LW Bogdanka S.A. Risk Register,
4. LW Bogdanka S.A. Risk Map,
5. LW Bogdanka S.A. List of Key/Significant Risks,
6. List of Risk Owners.

The process of managing the Company's corporate risk is divided into the following stages:

1. identifying the business objectives,
2. identifying the risks,
3. risk analysis,
4. risk assessment,
5. formulating and implementing the response to risk and key risk response plans,
6. monitoring the risk management process,
7. communication and application in the decision-making process.

The Company has adopted and is in the process of implementing a corporate risk management system that conforms to the highest standards in this regard, e.g. the ISO 31000 standard.

For the purpose of implementing the corporate risk management system, the Company's Management Board organised a Risk Management Department to be responsible for, above all, shaping, developing and improving the system, as well as for its gradual implementation in all the areas of the Company's operation and for administering the system. A Corporate Risk Management Committee was appointed to coordinate, implement and make the decisions defined as part of the system. The Committee consists of the Company's key personnel representing the Company's main business areas. The Risk Management Department and the Corporate Risk Management Committee provide the Management Board and the Supervisory Board (the Audit Committee) with appropriate statements and reports related to corporate risk management.

In 2015, the Company identified and recorded in the Risk Register 320 risks from all areas of corporate activity, managed by 40 Risk Owners. Using the ERM System, three risk assessments were conducted in 2015, during the last one (in February 2016) 11 risks were assessed as strategic, i.e. material for the Company's operations. The Management Board approved programmes and measures developed by Risk Owners to minimise those risks.

Key strategic risks of the Company, which materially affect its economic and financial standing and such factors as review of sales production plans (downsizing), or drop in revenue and financial results, is the global and domestic overproduction of coal as well as falling coal prices on Polish and world markets. A material risk for the Company is also posed by the planned restructuring/reforming of the largest Polish coal producers, i.e. KW S.A., KHW S.A. and JSW S.A. and how this will influence the market conditions for the production and sale of coal (thermal fine coal) to domestic customers.

According to the Supervisory Board, given the current level of development and implementation of its corporate management risk system, the Company properly manages, using the ERM system, the risks significant from the point of view of its objectives, correctly identifying and monitoring significant threats to the achievement of the Company's tasks, as well as taking actions aimed at minimising them.

7. Reasonableness of the current sponsorship policy

In 2015 the Company conducted sponsorship operations based on the following two documents approved by the Supervisory Board: "Review of LW Bogdanka S.A.'s Sponsorship Activities for 2013-2014" and "LW Bogdanka S.A.'s Sponsorship Strategy for 2015". The two main areas of these operations include supporting sports and social and cultural events in the local community.

It is partly due to the financial support of the Company allocated towards player education and training that Górnik Łęczna S.A. football club advanced to the Polish Premier League (*Ekstraklasa*) in the 2014/2015 season, which directly translated into greater media coverage for the Company (this includes a nearly 250% increase in fan turnout at Łęczna stadium and live broadcasts of Ekstraklasa matches). Górnik Łęczna's success in competitive sports is of great importance to the local community and Company's employees and contributes to increased interest on the part of young people in pursuing an active lifestyle. As part of the sponsorship co-operation, Górnik Łęczna S.A. runs a Górnik Łęczna Sports Academy, enabling a large group of children and teenagers from Łęczna and its surrounding areas to participate in regular training sessions. Another major sponsorship area for the Company includes the co-operation with Lublin Municipality aimed at organising Carnival Sztuk-Mistrzów, a cultural event of nationwide popularity.

The assumptions of the Company's sponsorship strategy are as follows:

- The number of organisations supported is limited; in 2014 they included 1 entity under sports sponsorship and 12 entities under social and cultural sponsorship,
- Youth training is offered in various sports disciplines (co-operation with the local community aimed at fostering children and youth's physical and mental growth),
- The sponsorship payments to beneficiaries are monitored on an ongoing basis through the following measures: the funds are paid out either in instalments or upon the completion of a given project, the sponsor is presented a detailed breakdown of expenses (as earmarked) and

reports (an overview of project execution and promotional activities benefiting the Company), the Company is entitled to terminate sponsorship contracts unilaterally without giving any reason.

The correct execution of the sponsorship strategy is supervised by the Head of Management Office along with the reporting Marketing, Public Relations and CSR Departments, whereas any decisions regarding the Company's involvement in sponsorship projects are taken by the Company's Management Board.

The Supervisory Board has found that the Company's sponsorship strategy complies with the adopted guidelines, including the "Corporate Social Responsibility Strategy for 2014-2017") and guarantees the performance of the Company's sponsorship and CSR objectives.

On 31 December the Supervisory Board adopted resolution No. 14 on the approval of sponsorship strategy for the first half of 2016.

8. Evaluation of the application of Corporate Governance

In 2015, LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules were adopted by resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. Since 2016, the Company has been applying the new Code of Best Practice for WSE Listed Companies attached as an appendix to Resolution No. 26/1413/2015 of the Board of the Stock Exchange in Warsaw of 13 October 2015. The "Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl

The Company strives to follow nearly all the rules provided for in the Code of Best Practice and notifies the market on an ongoing basis of any deviations from said rules. At present the Company does not apply the rule contained in Section I.

The recommendation included in the Code of Best Practice for WSE Listed Companies, point 9, regarding an equalised share of men and women in performing the management and supervisory functions in enterprises, thus strengthening creativity and innovativeness with respect of business operations run by companies; the rule included in Section IV of the Code of Best Practice for WSE Listed Companies - point 10, enabling the shareholders to participate in a General Shareholders Meeting using electronic communication means through real-life broadcast of General Shareholders Meetings; real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Shareholders Meeting as well as the rule included in Section III of the Code of Best Practice for WSE Listed Companies, point 6, regarding the assumption that at least two members of the Supervisory Board should meet the criteria of independence from the Company and the entities being in a significant relationship with the Company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Shareholders Meeting.

Apart from communicating through the EBI system, LW Bogdanka also maintains a website where all the information required under Section II.1 of the Code of Best Practice for WSE Listed Companies is posted. In order to facilitate access to information, any Corporate Governance-related items are published on a separate subpage.

In accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Dz. U. 2009, No. 33, item 259), the Company publishes an annual "Statement on Application of Corporate Governance" as part of the Directors' Report on Operations of LW Bogdanka for each consecutive financial year.

The Supervisory Board monitors, on an ongoing basis, the correct execution by the Company of disclosure requirements with respect to the application of Corporate Governance principles.

The Supervisory Board has positively assessed the application by the Company of Corporate Governance principles as provided for in the Code of Best Practice for WSE Listed Companies and finds that the Company duly fulfils relevant disclosure requirements.

9. Summary

The level of coal production and better financial results are the consequence of the existing strategy which is being consistently implemented by the Company. Lubelski Węgiel BOGDANKA S.A. stands out in the industry as regards its financial performance, efficiency of hard coal extraction and investment plans, therefore the Supervisory Board evaluates the situation of the Company as good, in spite of difficult macroeconomic conditions, characterised significant drop in prices of coal. As one of the most efficient hard coal mines in Poland and domestic leader on the market of power coal producers, LW Bogdanka S.A. is in a good situation for strengthening further its strategic position, and at the same time increasing the profitability and creating value for the shareholders.

IX. Report on results of the assessment of the Company's financial statements and the motion of the Management board regarding coverage of net loss for the financial year 2015.

Pursuant to the provisions of Article 382.3 of the Commercial Companies Code, Article 32.1.1 of the Articles of Association, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. made a review and an assessment of:

1. the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the period from 1 January 2015 to 31 December 2015;
2. Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January 2015 to 31 December 2015, including:
 - statement of financial position prepared as of 31 December 2015, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 3,594,729,000**;
 - income statement for the period from 1 January 2015 to 31 December 2015, showing net loss in the amount of **PLN 278,029,000**;
 - statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 showing a negative total comprehensive income in the amount of **PLN 282,041,000**;
 - statement of movements in the equity for the period from 1 January 2015 to 31 December 2015, showing a decrease in the equity by **PLN 399,578,000**;
 - statement of cash flows for the period from 1 January 2015 to 31 December 2015, showing an increase in cash by **PLN 67,748,000**;
 - notes, detailing for the adopted accounting policy, as well as additional information.
3. Directors' Reports on Operations of the Lubelski Węgiel Bogdanka Group for the period from 1 January 2015 to 31 December 2015;
4. Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January 2015 to 31 December 2015, including:
 - consolidated statement of financial position prepared as of 31 December 2015, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 3,644,024,000**;
 - consolidated income statement for the period from 1 January 2015 to 31 December 2015, showing net loss in the amount of **PLN 279,626,000**;
 - consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 showing a negative total comprehensive income in the amount of **PLN 283,668,000**;
 - consolidated statement of movements in the equity for the period from 1 January 2015 to 31 December 2015, showing a decrease in the equity by **PLN 401,205,000**;

- consolidated statement of cash flows for the period from 1 January 2015 to 31 December 2015, showing an increase in cash by **PLN 66,556,000**;
- notes, detailing for the adopted accounting policy, as well as additional information.

As a result of the analysis and on the basis of the auditor's opinion and the audit report conducted by chartered auditors, the Supervisory Board states as follows:

The Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2015 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2015 in all material aspects were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The financial statements subject to the assessment comply, in form and content, with the applicable provisions of law and the Company's Articles of Association, and clearly and reliably present all information necessary for evaluating the Company's profitability and operating profit (loss) for the 2015 financial year, as well of the Company's financial and economic situation as at 31 December 2015. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the 2015 financial year and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2015 contain information on the Company that is true, consistent with the data contained in the financial statements and they fully and reliably present the Company's situation, including all important events.

The Supervisory Board issues its positive assessment of the Management Board's motion, in accordance with which the generated net loss in the amount of **PLN 278,029,548.37** will be covered in entirety with the Company's reserve capital.

X. Cooperation of the Supervisory Board and the Trade Unions

Four union organisations operate at the Company.

As at 31 December 2015, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1,127 members
2. Trade Union of Miners in Poland 1,544 members
3. "Kadra" Trade Union 271 members
4. "Przeróbka" Trade Union 270 members

As at 31 December 2015, the number of staff employed at the Company amounted to 4,555 people. In total, 3,212 employees were members of trade union organisations, including 73 employees belonging to at least two trade union organisations, which constitutes 70.52% of the total head count.

Trade union organisations participate in decision-making to the extent provided for by the law.

The Supervisory Board positively assesses the cooperation of the Company's Management Board and the trade unions.

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 2015, 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 has a positive opinion of its work with the Company's Management Board in 2015 and of the administrative and organisational aspects of the work of both the Supervisory Board

as well as of the Audit Committee, the Appointment and Remuneration Committee and the Strategy Committee.

The Supervisory Board assess positively the operations of the Company's Management Board within the audited period, and moves to the General Shareholders Meeting that discharge be granted to the members of the Company's Management Board in respect of their duties. The grounds for such opinion are the outcomes recorded by the Company and implementation of investment goals.

In the reporting period, the Supervisory Board exercised continuous supervision over the Company's activities in all areas of its operations. These activities included: the analysis of the financial results, and the analysis of information concerning the Company's operations, provided by the Management Board.

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 duties provided for in the Articles of Association.

Members of the Supervisory Board are entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Extraordinary General Shareholders Meeting, by virtue of Resolution No. 3 of 16 November 2015, defined a change in rules and the amount of remuneration for the members of the Company's Supervisory Board to equal an average monthly remuneration in the industrial sector in Q4 2009, and in relation to internal regulations of the Enea Group it was decided that a fixed flat-rate monthly salary will amount to PLN 1 for each month. According to statements made by five members of the Supervisory Board appointed on 16 November 2015, they have waived their remunerations in full amounts for holding positions in the Supervisory Board. In 2015, a total gross remuneration paid to the Supervisory Board members for performing their duties in the Company amounted to PLN 811,610.08.

The Company covers the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision. In 2015, the total costs mentioned above amounted to PLN 58,450.15. The Supervisory Board of LWB S.A. used advisory services provided by Spencer Stuart, worth PLN 40,000.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

The 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 2015.

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

1. Mirosław Kowalik	Chairman of the Supervisory Board	[signature]
2. Wiesław Piosik	Deputy Chairman of the Supervisory Board	[signature]
3. Szymon Jankowski	Secretary of the Supervisory Board	[signature]
4. Magdalena Kaczmarek	Member of the Supervisory Board	[signature]
5. Przemysław Krasadomski	Member of the Supervisory Board	[signature]
6. Michał Stopyra	Member of the Supervisory Board	[signature]

Bogdanka, 6 June 2016