



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD
LUBELSKI WĘGIEL BOGDANKA SPÓŁKA AKCYJNA
FOR THE FINANCIAL YEAR 2016**

TABLE OF CONTENTS

I. Term of office and composition of the Supervisory Board.....	3
II. Meetings of the Supervisory Board, material issues and the number of resolutions adopted	4
III. Information on the activities of the Supervisory Board Committees	7
IV. Composition of the Management Board	8
V. Information on appointing a chartered auditor	10
VI. Assessment of the Company's situation, as well as the internal control and risk management systems	11
VII. Report on results of the assessment of the Company's financial statements and the motion of the Management board regarding distribution of profit for the financial year 2016	19
VIII. Cooperation of the Supervisory Board and the Trade Unions	20
IX. Cooperation of the Supervisory Board and the Management Board of the Company	21

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 joint term of office. In accordance with the Company's Articles of Association, the Supervisory Board is composed of 5 to 9 members. The members of the Supervisory Board are appointed and removed 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 including those set out 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 composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. in 2016 was as follows:

From 1 January 2016

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

On 14 January 2016 Dalida Gepfert 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 Mr Krzysztof Matan and Bartosz Krysta were removed from the Supervisory Board, and the following persons were appointed to the Supervisory Board: Mirosław Kowalik, Wiesław Piosik, Szymon Jankowski, and Przemysław Krasadomski.

The newly appointed Supervisory Board was established at its first meeting held on 3 March 2016 and appointed the following persons to the positions of: Chairman of the Supervisory Board – Mr Mirosław Kowalik, Deputy Chairman of the Supervisory Board – Mr Wiesław Piosik, Secretary of the Supervisory Board – Mr Szymon Jankowski.

The composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as at 31 December 2016 was as follows:

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

On 7 March 2017, the Extraordinary General Shareholders Meeting introduced changes in the composition of the Supervisory Board and unified the term of office of all its members. As at the date of this Report the newly appointed composition of the Supervisory Board of the 10th term of office was as follows:

- | | |
|---------------------------|--|
| 1. Mirosław Kowalik | - Chairman |
| 2. Wiesław Piosik | - Deputy Chairman of the Supervisory Board |
| 3. Szymon Jankowski | - Secretary |
| 4. Magdalena Kaczmarek | - Member |
| 5. Przemysław Krasadomski | - Member |
| 6. Kamil Patyra | - Member |
| 7. Mariusz Romańczuk | - Member |
| 8. Michał Stopyra | - Member |

Mr Michał Stopyra fulfils the independency criteria within the meaning of Article 15.1 of the Company's Articles of Association.

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

Meetings of the Supervisory Board in 2016 were convened by the Chairman of the Supervisory Board and President of the Management Board (3 March 2016). 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 5 meetings. Resolutions were also adopted by correspondence. During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. adopted 52 resolutions.

All members of the Supervisory Board were present at its meetings in 2016.

During the meetings held in 2016, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues (without limitation):

- establishing the Supervisory Board and complementing the composition of the Audit Committee;
- the Company's and the Group's current economic, financial and social situation;
- motion of LWB's Management Board regarding an approval for the conclusion of a memorandum of understanding to the long-term agreement for the supply of thermal coal in 2016 with ENEA Wytwarzanie sp. z o.o.;
- amendments to the Rules of Procedure of the Supervisory Board and adoption of a uniform text of the Rules of Procedure;
- amendments to the Company's Articles of Association;
- the Management Board's information on the results of the "Audit of selected areas of the operation carried out by Lubelski Węgiel Bogdanka S.A." performed by E&Y on the basis of results for 2012-2014 along with an assessment regarding the implementation of audit recommendations;
- changes in the composition of the Company's Management Board;
- establishing the rules governing remuneration to members of the Management Board and the amount thereof;
- concluding agreements with members of the Management Board;
- audit opinions and reports on the Company's and the Group's financial statements for 2015 prepared by an auditor;
- Company's and the Group's financial statements for 2015;
- Director's Reports on Operations of the Company and of the Group for 2015;
- report of the Supervisory Board for 2015;
- coverage of net loss for 2015;
- matters to be covered by resolutions of the Annual General Shareholders Meeting;
- conclusion that the conditions entitling to exercise Options for 2015 have not been met;

- motion of the Management Board to grant MBO 2015 annual bonuses;
- motion of the Management Board to grant consent to incurring an obligation – an overdraft credit facility of up to PLN 150,000,000 and to establish security with regard to this obligation;
- review of documentation regarding the selection of a technical advisor to the Supervisory Board (of the previous term of office) and the proposed scope of work;
- defining KPIs for 2016 for the members of the Company's Management Board;
- information of the Management Board on the mining prospects at LW Bogdanka in 2016-2020, including aspects of mining in the Puchaczów V and Stręczyn mining areas (covered with the existing licence) as well as a concept for exploration of the Ostrów area;
- information on external inspections carried out at the Company;
- information on costs incurred by the Company as a result of management contracts concluded with the members of the Company's Management Board;
- the Rules of appointing and removing Supervisory Board members selected by the Company's employees;
- self-assessment of the Supervisory Board;
- performance and forecast performance of the Company's Technical and Economic Plan for 2016.

Resolutions adopted by the Supervisory Board in 2016:

Minutes No.	Date of the meeting	Resolution No.	Regarding
1/2016	3 Mar. 2016	1/2016	adopting the agenda
		2/2016	appointing the Chairman of the Supervisory Board
		3/2016	appointing the Deputy Chairman of the Supervisory Board
		4/2016	appointing the Secretary of the Supervisory Board
		5/2016	complementing the composition of the Audit Committee and selection of the Chair of the Audit Committee
		6/2016	approving the conclusion of a memorandum of understanding to the long-term agreement for the supply of thermal coal in 2016 with ENEA Wytwarzanie sp. z o.o.
		7/2016	introducing amendments to the Rules of Procedure of the Supervisory Board and adopting a uniform text of the Rules of Procedure
2/2016	24 Mar. 2016	8/2016	adopting the agenda
		9/2016	issuing an opinion on the Management Board's motion regarding the amendments to the Company's Articles of Association.
		10/2016	removing a member of the Management Board
		11/2016	removing a member of the Management Board
		12/2016	removing a member of the Management Board
		13/2016	removing a member of the Management Board
		14/2016	appointing a member of the Management Board
		15/2016	appointing a member of the Management Board
		16/2016	appointing a member of the Management Board
		17/2016	establishing the rules governing remuneration for members of the Management Board and the amount thereof
		18/2016	concluding a civil law contract for management services, a non-competition agreement, and an agreement for providing

			work tools for use, with Mr Krzysztof Szlaga
		19/2016	concluding a civil law contract for management services, a non-competition agreement, and an agreement for providing work tools for use, with Mr Stanisław Misterek
		20/2016	concluding a civil law contract for management services, a non-competition agreement, and an agreement for providing work tools for use, with Mr Adam Partyka
3/2016	13 May 2016	21/2016	adopting the agenda
		22/2016	assessing the Company's and the Group's financial statements for the financial year 2015
		23/2016	assessing the Directors' Report on Operations of the Company and of the Group for the financial year 2015
		24/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Zbigniew Stopa, for the performance of his duties in the financial year 2015
		25/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Waldemar Bernaciak, for the performance of his duties in the financial year 2015
		26/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Yves Marie Gerard Roger de Bazelaire de Boucheporn, for the performance of his duties in the financial year 2015
		27/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Krzysztof Szlaga, for the performance of his duties in the financial year 2015
		28/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Piotr Janicki, for the performance of his duties in the financial year 2015
		29/2016	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Jakub Stęchły, for the performance of his duties in the financial year 2015
		30/2016	approving the uniform text of the Company's Articles of Association
		31/2016	concluding that the conditions entitling to exercise Options for 2015 have not been met
		32/2016	not granting an annual bonus to the President of the Management Board for 2015
		33/2016	not granting an annual bonus to the Vice-President of the Management Board for 2015
		34/2016	not granting an annual bonus to the Vice-President of the Management Board for 2015
		35/2016	not granting an annual bonus to the Vice-President of the Management Board for 2015
		36/2016	granting consent to incurring a credit facility worth PLN

			100,000,000 and to establishing security with regard to the Company's obligation arising under the granted credit facility
		37/2016	appointing a member of the Management Board
		38/2016	appointing a member of the Management Board
		39/2016	determining the rules governing remuneration of the Management Board
		40/2016	concluding a civil law contract for management services, a non-competition agreement, and an agreement for providing work tools for use, with Mr Marcin Kapkowski
		41/2016	concluding a civil law contract for management services, a non-competition agreement, and an agreement for providing work tools for use, with Mr Sławomir Karlikowski
By corresp.	6 Jun. 2016	42/2016	assessing the Management Board's motion regarding the coverage of net loss for 2015
By corresp.	6 Jun. 2016	43/2016	approving the Report of the Supervisory Board for the financial year 2015
By corresp.	23 Jun. 2016	44/2016	approving the sponsorship strategy 1 July 2016 – 30 June 2016
4/2016	28 Jul. 2016	45/2016	defining the KPIs for the President of the Management Board, Mr Krzysztof Szlaga
		46/2016	defining the KPIs for the Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility, Mr Sławomir Karlikowski
		47/2016	defining the KPIs for the Vice-President of the Management Board, Procurement and Investments, Mr Marcin Kapkowski
		48/2016	defining the KPIs for the Vice-President of the Management Board, Economic and Financial Affairs, Mr Stanisław Misterek
		49/2016	defining the KPIs for the Vice-President of the Management Board, Employee and Social Affairs, Mr Adam Partyka
By corresp.	28 Sep. 2016	50/2016	approving conclusion of annexes to the long-term agreements for the supply of thermal coal with ENEA Wytwarzanie Sp. z o.o.
5/2016	4 Nov. 2016	51/2016	approving the Rules of appointing and removing Supervisory Board members selected by the Company's employees
By corresp.	2015	52/2016	adopting Rules of Procedure of the Supervisory Board.

III. Information on the activities of the Supervisory Board Committees

In 2016, the composition of the the Audit Committee was as follows:

From 1 January 2016

1. Dalida Gepfert – **Chairman**,
2. Magdalena Kaczmarek
3. Michał Stopyra.

As Ms Dalida Gepfert resigned from the function of a member of the Supervisory Board of LWB S.A. and the Extraordinary General Shareholders Meeting on 23 February 2016 appointed a new composition of the Supervisory Board at its first meeting on 3 March 2016, the composition of the Audit Committee was complemented, which as at 31 December 2016 was as follows:

1. Przemysław Krasadomski – Chairman,

2. Magdalena Kaczmarek,
3. Michał Stopyra,

Two meetings of the Audit Committee were held on the following dates:

- 28 Jul. 2016
- 4 Nov. 2016

In 2016 the Audit Committee 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.

In relation to changes in the composition of the Supervisory Board made on 7 March 2016 by the Extraordinary General Shareholders Meeting, the Supervisory Board, at its first meeting on 27 March 2017, complemented the composition of the Audit Committee, which as at the date of the Report was as follows:

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

IV. Composition of the Management Board

Until 24 March 2016, the Management Board of the 9th term of office was as follows:

- Zbigniew Stopa – President of the Management Board,
- Waldemar Bernaciak – Vice-President of the Management Board for 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 removed 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.

On 13 May 2016 the Company's Supervisory Board appointed Mr Sławomir Karlikowski and Mr Marcin Kapkowski to the Management Board.

As at 31 December 2016 and as at the day of submitting the Report, the composition of the Management Board of the Company was as follows:

- Krzysztof Szlaga – President of the Management Board,
- Sławomir Karlikowski – Vice-President of the Management Board, Production – Head of Mining Supervision in Mining Facility
- Marcin Kapkowski – Vice-President of the Management Board, Procurement and Investments,
- 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

The rules of remuneration of the members of the Management Board of LW Bogdanka S.A. which applied in 2016 were introduced under the Resolutions of the Supervisory Board of LW Bogdanka S.A.

of 24 March 2016 and 13 May 2016. All members of the Management Board entered into Service Agreements – Management Contracts with the Company referred to in Article 3.2 of the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Dz.U. [Journal of Laws] No. 26, item 306, as amended). The Service Agreements, and the Non-Compete Agreements attached thereto, signed by the Company stipulate that:

- during the term of the Service Agreement, members of the Management Board are entitled to a fixed monthly salary and performance-based annual bonus in the amount of 50% of total annual remuneration, calculated in accordance with the specific rules laid down in the Service Agreement,
- in return for compliance with the non-compete obligations during the non-compete period, members of the Management Board are entitled to compensation in the total amount equal to their fixed monthly salary multiplied by the number of months in the non-compete period,
- In the event of expiry of the Service Agreement as a result of expiry of the mandate of member of the Management Board, the Company is entitled to demand, for one month from expiry of the Agreement, that members of the Management Board provide services in connection with the handover of the affairs associated with running of the Company to a person appointed by the Chairman of the Supervisory Board. Members of the Management Board are entitled to remuneration for this, in the amount of the fixed salary,
- Members of the Management Board are entitled to severance pay in the amount equal to three times the monthly fixed salary, except where:
 - the Service Agreement is terminated by the Company or it expires as a result of dismissal from the position of member of the Management Board for a culpable material breach of the provisions of the Articles of Association or the Service Agreement, resulting in detriment to the Company;
 - the Service Agreement is terminated by the Company or it expires as a result of losing the right to hold the position of member of the Management Board in the cases specified in Article 18 of the Commercial Companies Code;
 - the Service Agreement is terminated by the member of the Management Board or it expires as a result of resignation from the position, unless the termination of the Agreement or the resignation took place by fault of the Company;
 - the Agreement expires as a result of expiry of the mandate of member of the Management Board at the end of the term of office for which the Member had been appointed, if the Member does not wish to be appointed to the Management Board for another term of office,
 - the Agreement is terminated by the member of the Management Board or it expires as a result of dismissal from the position or expiry of the mandate for other reasons, and the Member is then appointed to the management board of the Company or another Enea Group company.

In the event of violation of the non-compete obligation by members of the Management Board, they lose the right to receive any further instalments of the compensation and are obliged to pay liquidated damages to the Company. The Company has the right to terminate the Non-Compete Agreement if the prerequisites for the prohibition of competition cease to exist.

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

Depending on the assumed levels of Key Performance Indicators (KPI), members of the Management Board may be awarded an annual bonus.

On 7 March 2017 the Extraordinary General Shareholders Meeting of Lubelski Węgiel Bogdanka adopted Resolution No. 4 on the rules governing remuneration for the Management Board members. The Resolution provides for the establishment of a Fixed Remuneration determined as a multiple of the average remuneration in the corporate sector excluding bonuses from profits in the fourth quarter

of the previous year as announced by the President of the Central Statistical Office of Poland using a multiplier between seven and fifteen, and a Variable Remuneration which shall depend on the degree of accomplishment of Management Goals and may not exceed 100% of the Fixed Remuneration.

Moreover, the resolution specifies as follows:

- A member of the Management Board may be granted a severance pay not higher than three times his or her Fixed Remuneration, provided that the member of the Management Board held his or her function for at least twelve months before the Agreement was terminated.
- The Supervisory Board may sign a non-compete agreement with a member of the Management Board, which will be in force after the member ceases to hold his or her function, provided that such agreement may only be concluded if the member of the Management Board held his or her function for a period of at least six months, and its amount may not exceed 50% of his or her Fixed Remuneration.

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 2016 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2016 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 2016, as well as the Company's financial and economic situation as at 31 December 2016. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the financial year 2016 and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2016 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 standing, 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:

- other attestation services (audit and review of a group package for the purposes of ENEA),
- checking whether the electricity consumption ratio for 2014-2016 was calculated correctly,

- checking whether the “Net debt/EBITDA” ratio, calculated at the end of each quarter (in accordance with the requirements of the Programme Agreements related to the issue of bonds) was calculated correctly,
- 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 2016, LW Bogdanka S.A.'s revenue amounted to PLN 1,781,776,000 and was lower by PLN 101,342,000 compared to the revenue figure for the same period of 2015.

The main source of the Company's revenue was the production and sale of thermal coal. Between 1 January 2016 and 31 December 2016 this activity generated 97.1% of the Company's revenue (96.4% in the same period of the previous year). The drop in the revenue on sales of coal is a result of lower average coal price by approx. 10% compared to 2015.

2. Profitability ratios

The Company's profitability ratios stood at higher levels in 2016 compared to 2015. Gross margin on sales of LW Bogdanka went up from -17.2% (4 quarters of 2015) to 12.4% (4 quarters of 2016).

EBIT margin in the fourth quarter of 2016 was 17.3%, i.e. it was higher by 107.1 p.p. than in the fourth quarter of the previous year. EBIT for four quarters for 2016 was higher by 30.1 p.p. in relation to the same period of 2015 and was 12.7%.

For four quarters of 2016, Company's EBITDA margin amounted to 32.9%, i.e. less by 3.1 p.p. compared to the same period of 2015.

3. Coal production and sales

Lubelski Węgiel Bogdanka S.A. is Poland's leader among the producers of thermal coal. In the period from January to December 2016, the production of commercial coal was 9,038,000 tonnes, i.e. it was more by 6.9% than in the same period of 2015.

In the period from 1 January 2016 to 31 December 2016, the production of commercial coal was 9,141,000 tonnes, i.e. it was more by 6.8% than in the same period of 2015. This translated into coal sales of PLN 1,730,611,000 compared to PLN 1,815,441,000 in 2015, and into the total revenue figure of PLN 1,781,776,000 in 2016 compared to PLN 1,883,118,000 for the same period of the previous year.

4. Strategy

Development Strategy of LW Bogdanka S.A. Mining Area of the Enea Group until 2025 (under the 2030 framework)

The strategy of LW Bogdanka in the Mining Area of the Enea Group includes two development scenarios: baseline, which assumes average production at a level of about 8.5 million tonnes a year over 2017-2025, and flexible development, with average annual production at a level of about 9.2 million tonnes over the same period. Taking into account the current situation on the Polish market and the prospects for the coming years, the Company intends to pursue the flexible development scenario, securing to a material extent the demand for coal by production entities operating within the

ENEA Group (Kozienice, Połaniec). CAPEX forecast for 2016-2025 (in nominal terms) amounts to PLN 3.7 billion for the baseline scenario and about PLN 4 billion for the flexible development scenario.

LW Bogdanka, which is responsible for the Mining Area in the Enea Group, wants to pursue certain key initiatives to ensure close cooperation and synergies in the Kozienice-Bogdanka-Połaniec mining and power generation area, to double its exploitable resources and to implement various innovative strategic projects.

Within the framework of such ventures, LW Bogdanka will prepare, jointly with the Enea Group, a feasibility study for a project to deploy the integrated gasification combined cycle (IGCC) technology which is to provide fuel for power generation; use leading-edge high-performance face complex; continue its "Smart Mine" programme; efficiently manage waste rock; and develop an operator's services, offered on the basis of high technology and management standards of the Company.

Compliance with the highest work safety standards and with corporate social responsibility (CSR) rules is invariably one of the top priority components of the strategy.

The Company expects that the flexible development scenario will reduce the Unit Mining Cash Cost by 10% by 2025 (in real terms, as compared to 2015). Over the same period, the Return on Equity (ROE) ratio should grow to 10.9% (from 8.7% in 2015), the Return on Assets (ROA) ratio is expected to increase to 8.5% (from 5.3% in 2015) and EBITDA will rise, nominally, by 44% (as compared to 2015, adjusted by impairment loss).

LW Bogdanka S.A. also announced its dividend policy for the near future. It assumes that the Company will allocate up to 50% of its net profit disclosed in its separate financial statements for dividend for shareholders.

Synergies in the Kozienice-Bogdanka-Połaniec mining and power generation area

The Enea Group purchased from ENGIE International Holdings B.V. 100% of shares in ENGIE Energia Polska, which was the owner of the Połaniec Power Plant.

As a result of this takeover two key clients of LW Bogdanka S.A. are included in the Enea Group. Therefore the Kozienice-Bogdanka-Połaniec mining and power generation area located in the south-eastern Poland will bring about various benefits to both LW Bogdanka and the Enea Group, including further efficiency improvement in the generation of power from coal supplied by Bogdanka. This will also strengthen the market position of the Enea Group as one of the leading producers of electricity in Poland. For Bogdanka, in turn, this means more operational stability and a possibility of planning its production and employment levels over a long time horizon.

Development of resource base and longer life of the mine

LW Bogdanka intends to double its exploitable resources in the Lublin Coal Basin (from 227 million tonnes at present to about 446 million tonnes). Assuming the annual production at the level of approximately 9 million tonnes, the mine will be able to continue its operations for about 50 years (as compared to the expected life span of 25 years at present).

For the presented strategy, the key mining areas for the Company include Puchaczów V (deposit currently in use of about 211 million tonnes), Stręczyn (K-3 deposit, currently in use, with exploitable resources of about 16 million tonnes) and Ludwin (Ostrów deposit with estimated exploitable resources of about 186 million tonnes).

The Company is planning to obtain a mining licence for the Ludwin area (Ostrów deposit) in 2017. Concurrently, Bogdanka will continue to analyse the K-6 and K-7 deposits and the Orzechów area as prospective areas for future mining operations.

Corporate social responsibility (CSR)

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

Innovations in LW Bogdanka - strategic initiatives

In the course of preparations of the strategy for the Enea Group, 60 strategic initiatives have been conceived, of which 10 by engineers from Bogdanka.

The top priority projects include:

1. Feasibility study of the construction of an integrated gasification combined cycle (IGCC) system – the Company intends to develop, jointly with the Enea Group, a feasibility study of construction in LW Bogdanka of an integrated gasification combined cycle (IGCC) system for production of fuel for power generation. If it is decided to implement the project, a new market for hard coal will emerge, leading to a higher energy independence of Poland's economy.
2. High-performance face complex – the high-performance face complex project is an element of initiatives which have been pursued for years LW Bogdanka related to innovative solutions enhancing the operating efficiency. The project is to shorten the time in which heading excavations must be maintained and to achieve the above-average progress of work to drill roadway excavations.
3. Smart Solutions Mine – even today LW Bogdanka has solutions that are unique in Poland's underground mining sector. They support decision making in the process of preparation of deposits for extraction and employ the most recent technological developments introduced in the global mining sector. The Company intends to retain its position of the efficiency and innovation leader in the mining sector, also by continuing its "Smart Mine" programme. Those activities will cover the further development of the deposit management system and the continued computerisation and automation of the production chain in the Company.
4. Efficient waste rock management – the waste rock management project is to improve even further the control of quality of the coal output by optimising its production – from planning to deposit cutting and exploitation to liquidation of excavations. The scenarios being considered include placing the waste rock underground and using it for road construction.
The programme is to improve the quality of raw coal by reducing the content of waste rock in the output, to minimise waste rock pollutions and to reduce the costs of mining waste, including to extend the life span of waste stockpiles.
5. Operator's services provided by LW Bogdanka – LW Bogdanka wants to use its top-class technology and management standards and leading know-how to develop a new line of business - services of an operator of mining plants provided for entrusted assets. Such services would be offered throughout Central and Eastern Europe.
6. Further work safety improvement programme – for years, work safety has been a top priority for LW Bogdanka. Also the current strategic framework considers the safety and health of employees to be an issue of overriding importance.

Capital expenditure

The baseline scenario assumes CAPEX in the amount of PLN 3.7 billion (in nominal terms) over 2016-2025. If the flexible development scenario is opted for, capital expenditures will increase to about

PLN 4 billion, mainly in connection with the planned expenditures for mining machinery and equipment.

The above capital expenditure level also includes initial activities related to the Ostrów project, which is a must if LW Bogdanka wants to maintain the assumed production level after 2030.

Preliminary estimates show that the total capital expenditures required to start the exploitation of the Ostrów deposit will amount to PLN 1.2-1.3 billion (in real terms). Those expenditures would be spent to create the OG "Ludwin" mining plant (on the Ostrów deposit), which will be built after 2025 and, therefore, they are not included in the estimated capital expenditures in the current Strategy (except initial outlays of PLN 70 million).

The above amount of capital expenditure also excludes the implementation of strategic initiatives.

Dividend policy

In the future, the Management Board of LW Bogdanka S.A. intends to ask the General Shareholders Meeting for approval of dividends up to 50% of the net profits shown in the Company's separate financial statements, prepared in accordance with the International Financial Reporting Standards.

Each time, the dividends recommended by the Management Board will depend on:

- current market situation;
- generated operating cash flows;
- planned investments processes;
- projected debt of the Company.

5. 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 by the Audit Committee.

As a result of the audit and control tasks carried out in 2016, 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.

6. 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 2012 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 applies an enterprise risk management (ERM) 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 2016, the Company identified and recorded in the Risk Register 330 risks from all areas of corporate activity, managed by 39 Risk Owners. Due to the use of the ERM System three risk assessments were conducted in 2016; during the last one (as at 31 December 2016) the number of strategic risks of the Company was reduced thanks to the Company effective management thereof – from 18 risks identified in the previous assessment (in September 2016) only 7 risks were defined as strategic. Following the pursued mitigation programmes, approved by the Company's Management Board, other strategic risks have been mitigated to values which do not materially threaten the enterprise's objectives. As regards all risks to be defined as strategic in further valuations, Risk Owners develop programmes and measures for their mitigation with a view to protecting the Company's business against them; those programmes and measures are subject to the Management Board's approval.

At present the Company along with ENEA S.A. (Risk Management Department) work with the aim of integrating risk management at the ENEA Group. The completion of these works is scheduled for the third quarter of 2017.

The scale of risks and threats for the Company's operations was mainly due to a take-over of control by ENEA S.A., the key recipient of coal produced by the Company. Lower level of trade risks related to placing a defined volume of the mine's output on the market (approx. 9 million tonnes/year) was conditional upon the situation on the coal market. The increase in global coal prices (ARA) has become a basis for stabilisation and a slight price increase on the domestic market.

In the fourth quarter of 2016 the company signed agreements (annexes) with key coal customers setting out financial conditions for 2017 and supply volumes, which guarantee sale of the entire scheduled sales of the mine in the near future (approx. 9 million tonnes a year). LW Bogdanka S.A. signed:

with Energa Elektrownie Ostrołęka S.A. – an annex to long-term agreement for the sales of thermal coal extending the agreement term to the end of 2019; with ENGIE Energia Polska (formerly Elektrownia Połaniec) – an annex to long-term agreement extending the term of the coal supply agreement to 2021; with Grupa Azoty ZA Puławy S.A. – a coal supply agreement was extended to 2021. Further, on the intra-group basis, the Company signed with Enea Wytwarzanie an agreement for the supplies of coal to the Elektrownia Kozienice power plant between 2017 and 2036 (approx. 5 million tonnes per year during the first 10 years of the agreement) and an annex for the supplies of coal by the end of 2017, to units currently under operation.

These activities result in forming a sound basis for the Company to plan production and employment on a long-term basis, as well as carry out preparatory works, which in consequence makes production cost control easier. It is of significance as far as maintaining of the company's competitive edge on the Polish coal market during the process of restructuring other mining entities (JSW S.A., PGG S.A., KHW S.A.) is concerned.

At present (in a medium-term horizon – 3-5 years) the Company does not identify threats for continuing its business as a going concern.

According to the Supervisory Board 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 proper actions aimed at minimising them.

7. Reasonableness of the current sponsorship policy

In 2016 the Company conducted sponsorship operations based on the following two documents approved by the Supervisory Board:

- Sponsorship Strategy for LW Bogdanka S.A. – first half of 2016
- Sponsorship Strategy for LW Bogdanka S.A. – 1 July 2016 – 30 June 2017

The two main areas of these operations include supporting sports and social and cultural events in the local community, additionally to the pursued CSR policy.

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 remained in the Polish Premier League (Ekstraklasa) in the 2016/2017 season. Further, the actions taken both by LW Bogdanka and Górnik Łęczna we aimed at identifying new sources of financing sports and educational activities of the football club in Łęczna in 2016. Among other reasons this is why matches played by Łęczna as a host were relocated to a new football stadium, Arena Lublin, in Lublin. Górnik Łęczna's success in the top-class football league 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. 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.

The second entity LW Bogdanka cooperated with in 2016 with respect to sport sponsoring was MGKS Gwarek Łęczna, professional boxing club with successful competitors (both in Poland and abroad) of various age categories.

Another major sponsorship area for the Company includes the co-operation with Lublin Municipality aimed at organising Carnaval Sztuk-Mistrzów, a cultural event of nationwide popularity, as well as supporting many other social and cultural initiatives gathering both local community and mine employees.

All sponsorship projects pursued in 2016 translate into media attention and building a positive image of LW Bogdanka in its environment.

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

- Sponsorship, as a part of the CSR activities, has a task to provide the stakeholders with information to the effect that LW Bogdanka is a responsible company which, despite changes in the environment, has a consistent and positive response to social expectations;
- Cooperation was carried out in 2016 with two selected entities – sponsorship of two significant sport partners, and with social and cultural entities, in majority from direct neighbourhood of the Company;
- 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 and Public Relations 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 policy complies with the adopted guidelines, including the Sponsorship strategy documents and guarantees the performance of the Company's sponsorship and CSR objectives.

8. The assessment of the manner in which the Company fulfills disclosure requirements regarding corporate governance, as defined in the WSE's Rules of Procedure and in the regulations regarding current and periodic information provided by the issuers of securities

In 2016, LW Bogdanka S.A. complied with the new rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies 2016"). The Code of Best Practice is available on the Warsaw Stock Exchange's website devoted to issues of corporate governance – 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. Currently the Company does not apply the following four rules:

1. I. Information policy and communication with the investors - I.Z.1.15. – "information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website"
2. II. Management Board and Supervisory Board - II.Z.3. – "At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4."
3. II. Management Board and Supervisory Board - II.Z.8. – "The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4." and one recommendation:
4. IV. General Shareholders Meeting and relations with shareholders - IV.R.2 – "If justified by the shareholding structure or expectations of Shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a General Shareholders Meeting to proceed efficiently using electronic communication means, the company should enable its Shareholders to participate in a General Shareholders Meeting using such means, in particular through:
 - transmitting the session of the General Shareholders Meeting in real time,

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

Apart from communicating through the EBI system, LW Bogdanka S.A. also maintains a website where all the information regarding 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 in 2016 published an annual “Statement on Application of Corporate Governance” in its website <http://ri.lw.com.pl/lad-korporacyjny> and in the Directors’ Report on Operations of LW Bogdanka for 2016.

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 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 and efficiency, 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 thermal coal producers, LW Bogdanka S.A. is in a situation enabling it to further strengthen its strategic position, increase profitability and create value for the shareholders.

VII. Report on results of the assessment of the Company’s financial statements and the motion of the Management board regarding distribution of profit for the financial year 2016

Pursuant to the provisions of Article 382.3 of the Commercial Companies Code, Article 17.1 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 2016 to 31 December 2016;
2. Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January 2016 to 31 December 2016, including:
 - statement of financial position prepared as of 31 December 2016, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 3,748,429,000;
 - the income statement for the period from 1 January 2016 to 31 December 2016 showing net profit of PLN 175,896,000,
 - the statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, showing net positive total comprehensive income amounting to PLN 169,689,000,

- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, showing an increase in equity by PLN 163,776,000;
 - statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing an increase in cash by PLN 273,421,000,
 - 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 2016 to 31 December 2016;
 4. Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January 2016 to 31 December 2016, including:
 - consolidated statement of financial position prepared as of 31 December 2016, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 3,800,289,000;
 - consolidated income statement for the period from 1 January 2016 to 31 December 2016 showing net profit of PLN 181,992,000,
 - consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, showing net positive total comprehensive income amounting to PLN 175,698,000,
 - consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016, showing an increase in the equity by PLN 169,785,000;
 - consolidated statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing an increase in cash by PLN 279,069,000,
 - notes to the consolidated financial statements, 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, as well as the opinion of the Audit Committee, the Supervisory Board states as follows:

The Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2016 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2016 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 2016 financial year, as well of the Company's financial and economic situation as at 31 December 2016. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the 2016 financial year and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the 2016 financial year 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 standing, including all important events.

The Supervisory Board positively assesses the Management Board's motion to the Annual General Shareholders Meeting regarding the distribution of net profit for 2016, according to which the net profit generated by the Company in 2016 in the amount of PLN 175,896,313.75 will be allocated as follows:

- the amount of PLN 34,013,590.00 will be allocated for a dividend for shareholders, i.e. PLN 1.00 per share;
- the amount of PLN 141,882,723.75 will be allocated for the Company's reserve capital.

VIII. Relations with trade unions

Four union organisations operate at the Company.

As at 31 December 2016, the size of the individual trade unions was as follows:

- “Solidarność” Independent Self-Governing Trade Union – 1,166 members
- Trade Union of Miners in Poland – 1,553 members
- “Kadra” Trade Union – 267 members
- “Przeróbka” Trade Union – 287 members.

At the end of 2016, the number of staff employed at the Company amounted to 4,462 persons. In total, 3,273 employees were members of trade union organisations, which constitutes 72.1% of the total head count.

Cooperation of the Management Board of LW Bogdanka S.A. with the management boards of union organisations is constructive. Trade Union organisations participate in decision-making on the basis of applicable provisions of law.

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

IX. 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 2016, analysing and assessing issues submitted to the meetings by the Company’s Management Board.

The Supervisory Board has a positive opinion of its work with the Company’s Management Board in 2016 and of the administrative and organisational aspects of the work of both the Supervisory Board as well as of the Audit 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. Its 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.

Remuneration of the Supervisory Board Members is defined in Resolution No. 3 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 16 November 2015 as one time the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of 2009. This provision was amended by Resolution No. 5 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 17 August 2016 - as at the date of its adoption. The amount of remuneration of the Supervisory Board members is determined as one time the average monthly remuneration in the corporate sector excluding bonuses from profits in the fourth quarter of the previous year announced by the Central Statistical Office of Poland (GUS). Moreover, in relation to the Enea Group regulations for the representatives of the Enea Group in the Supervisory Board of the Company, a fixed flat-rate monthly remuneration has been established in the amount of PLN 1 for each month. That provision was amended by virtue of resolution No. 5 of the Extraordinary General Shareholders Meeting of 17 August 2016 which specifies that the indicated representatives of the Enea Group in the Supervisory Board of the Company are not entitled to any remuneration. The above

provisions regarding the remuneration of the Supervisory Board members were confirmed by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 on the rules for determining the remuneration of Supervisory Board Members.

In 2016, a total gross remuneration paid to the Supervisory Board members for performing their duties in the Company amounted to PLN 123,322.77. The Company shall cover 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 2016, the total costs mentioned above amounted to PLN 11,911.39.

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 to the Annual General Shareholders Meeting 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 2016.

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

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

Warsaw, 22 May 2017