



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD LUBELSKI
WĘGIEL BOGDANKA SPÓŁKA AKCYJNA FOR THE
FINANCIAL YEAR 2017**

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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 Lubelski Węgiel 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; in accordance with the Company's Articles of Association, one member of the Supervisory Board is appointed by the Minister of Energy. 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 2017 was as follows:

From 1 January 2017

- | | |
|---------------------------|--|
| 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 |
| 6. Michał Stopyra | - Member of the Supervisory Board |

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. The newly appointed composition of the Supervisory Board of the 10th term of office was as follows:

- | | |
|---------------------------|--|
| 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 |
| 6. Kamil Patyra | - Member of the Supervisory Board |
| 7. Mariusz Romańczuk | - Member of the Supervisory Board |
| 8. Michał Stopyra | - Member of the Supervisory Board |

On 29 August 2017 the Company's Management Board received from Mr Wiesław Piosik a statement of resignation from the position of the member of the Supervisory Board with effect from 25 August 2017.

On 20 December 2017 the Company's Management Board received a notification from the Minister of Energy, Mr Krzysztof Tchórzewski, of appointing Ms Anna Spoz to the Supervisory Board of Lubelski Węgiel Bogdanka S.A.

On 29 December 2017, the Extraordinary General Shareholders Meeting removed Ms Magdalena Kaczmarek from the position of a member of the Supervisory Board and appointed Ms Ewa Nowaczyk to the position of a member of the Supervisory Board.

At a Supervisory Board's meeting held on 29 January 2018, the Supervisory Board appointed Mr Przemysław Krasadomski to the position of Deputy Chairman.

As at the date of this Report the composition of the Supervisory Board of the 10th term of office was as follows:

- | | |
|---------------------------|--|
| 1. Mirosław Kowalik | - Chairman of the Supervisory Board |
| 2. Przemysław Krasadomski | - Deputy Chairman of the Supervisory Board |
| 3. Szymon Jankowski | - Secretary of the Supervisory Board |
| 4. Ewa Nowaczyk | - Member of the Supervisory Board |
| 5. Kamil Patyra | - Member of the Supervisory Board |
| 6. Mariusz Romańczuk | - Member of the Supervisory Board |
| 7. Anna Spoz | - Member of the Supervisory Board |
| 8. Michał Stopyra | - Member of the Supervisory Board |

Ms Anna Spoz and Mr Michał Stopyra fulfil 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 2017 were convened by the Chairman of the Supervisory Board and President of the Management Board (27 March 2017). 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 7 meetings and adopted resolutions by correspondence (with the use of means of direct remote communication). During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. adopted in total 48 resolutions.

The Supervisory Board's meeting held on 12 January 2017 was not attended by Mr Mirosław Kowalik, and the meeting held on 9 February 2017 was not attended by Mr Szymon Jankowski and Mr Przemysław Krasadomski; the Supervisory Board justified their absence and adopted relevant resolutions in relation thereto. Other Supervisory Board meetings were attended by all members.

During the meetings held in 2017, the Supervisory Board discussed, analysed and issued opinions with regard to (without limitation) the following issues:

- the Company's and the Group's current situation as regards economic, financial and social issues;
- information on the performance of the Sponsorship Strategy for Lubelski Węgiel Bogdanka S.A. – 1 July 2016 to 30 June 2017 and donations granted by the Company and its subsidiaries in 2016 and the first half of 2017;
- declaring the elections of candidates to the Company's Supervisory Board by the Company's employees, appointing the Central Election Committee;
- issuing an opinion on the Company's Technical and Economic Plan for 2017;
- Management Board's information on its intention to waive the Company's right to liquidated damages from Monter due to delayed supplies;
- approving the development Strategy of Lubelski Węgiel Bogdanka S.A. Mining Area of the Enea Group until 2025 (under the 2030 framework);
- establishing the Supervisory Board and complementing the composition of the Audit Committee;
- information on costs incurred by the Company as a result of management contracts concluded with the members of the Company's Management Board;
- determining the remuneration of Management Board members;

- authorising a member of the Supervisory Board to conclude, on behalf of the Company, the agreements terminating agreements concluded between the Company and the members of the Management Board and agreements and annexes to management services agreements concluded with the members of the Management Board;
- audit opinions and reports on the Company's and the Group's financial statements for 2016 prepared by an auditor,
- Company's and the Group's financial statements for 2016;
- Director's Reports on Operations of the Company and of the Group for 2016;
- report of the Supervisory Board for 2016;
- distribution of net profit for 2016;
- matters to be covered by resolutions of the Annual General Shareholders Meeting;
- report of the performance of conditions entitling to the exercise of Options (PMO);
- degree of KPIs performance by the members of the Company's Management Board for the financial year 2016;
- information on seam filching in seam 389 as a result of the exploitation in seam 391;
- information on the working time of the drivers of company cars;
- approving the uniform text of the Company's Articles of Association;
- implementing the Voluntary Redundancy Programme in the context of the employment projection in accordance with the Technical and Economic Plan for 2017 and 2018;
- adopting by-laws of the Supervisory Board;
- information provided by the Management Board on the increase in the employment rate together with the financial effects in the medium term;
- documentation related to the correspondence and meetings held between the Management Board and the local community about the process of integration of LW Bogdanka S.A. and the ENEA Group;
- information provided by the Management Board regarding the schedule of activities undertaken in relation to implementing the ENEA Group Code and the related acts at LW Bogdanka S.A. with account taken of the specific nature of LW Bogdanka S.A.;
- information provided by the Management Board on the current situation of the Company's purchases in the context of the structure, market trends in key areas, efficiencies made and plans for the future;
- the current and projected situation as regards the transport of coal from the mine – the impact of the pending modernisation of the railway infrastructure on the level of coal supplies to LW Bogdanka's recipients by rail;
- launching a procedure for the selection of an audit firm for Lubelski Węgiel Bogdanka S.A., approving the contents of the announcement, expressing consent for this procedure to be carried out along with the subsidiaries of Lubelski Węgiel Bogdanka S.A. and ENEA S.A. and its subsidiaries;
- information provided by the Management Board regarding the main suppliers of materials and services between 2015 and 2017 covering 80% of supplies and information regarding procedures carried out at the Company under the Public Procurement Act and the Company's by-laws, and on differences resulting from such regulations;
- information regarding accommodation bookings and payment card expenses of Management Board members for the previous year;
- information regarding planned coal supplies to the Kozienice Power Plant and the Połaniec Power Plant and the prospect of omitting the routes that are under repair and selling coal to other destinations;
- motion on re-financing of post-graduate studies by a member of the Management Board.

Resolutions adopted by the Supervisory Board in 2017:

Minutes No.	Date of the meeting	Resolution No.	Regarding
1/2017	12 January 2017	1/2017	declaring the elections of candidates to the Company's Supervisory Board
		2/2017	appointing the Central Election Committee
		3/2017	issuing an opinion on the Company's Technical and Economic Plan for 2017
2/2017	9 February 2017	4/2017	justifying the absence of the Supervisory Board member
		5/2017	justifying the absence of the Supervisory Board member
		6/2017	justifying the absence of the Supervisory Board member
		7/2017	approving LW Bogdanka S.A.'s development Strategy - Mining Area
1/2017	27 March 2017	1/X/2017	appointing the Chairman of the Supervisory Board
		2/X/2017	appointing the Deputy Chairman of the Supervisory Board
		3/X/2017	appointing the secretary of the Supervisory Board
		4/X/2017	appointing the Chairman of the Audit Committee
		5/X/2017	appointing a member of the Audit Committee
		6/X/2017	appointing a member of the Audit Committee
		7/X/2017	appointing a member of the Audit Committee
		8/X/2017	determining the remuneration of Management Board members
		9/X/2017	authorising a member of the Supervisory Board to conclude, on behalf of the Company, the following agreements: - agreements terminating agreements and contracts concluded by the Company and the members of the Management Board: contract for management services, a non-competition agreement, and an agreement for providing work tools for use, - management services agreements, with the members of the Management Board.
By corresp.	27 April 2017	10/X/2017	adopting the Rules and Regulations of the Supervisory Board
By corresp.	29 April 2017	11/X/2017	defining the Management Objectives (KPIs) for 2017 for the President of the Management Board, Mr Krzysztof Szlaga
By corresp.	29 April 2017	12/X/2017	defining the Management Objectives (KPIs) for 2017 for the Vice-President of the Management Board, Production, Manager of Mining Supervision in Mining Facility, Mr Sławomir Karlikowski
By corresp.	29 April 2017	13/X/2017	defining the Management Objectives (KPIs) for 2017 for the Vice-President of the Management Board, Procurement and Investments, Mr Marcin Kapkowski
By corresp.	29 April 2017	14/X/2017	defining the Management Objectives (KPIs) for 2017 for the Vice-President of the Management Board, Economic and Financial Affairs, Mr Stanisław Misterek
By corresp.	29 April 2017	15/X/2017	defining the Management Objectives (KPIs) for 2017 for the Vice-President of the Management Board, Employee and Social Affairs, Mr Adam Partyka
2/X/2018	22 May 2018	16/X/2017	assessing the Company's and the Group's financial statements for the financial year 2016

	17/X/2017	assessing the Directors' Report on Operations of the Company and of the Group for the financial year 2016
	18/X/2017	assessment of the Management Boards motion regarding the distribution of net profit for 2016
	19/X/2017	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 2016
	20/X/2017	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 2016
	21/X/2017	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 2016
	22/X/2017	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 2016
	23/X/2017	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 2016
	24/X/2017	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Marcin Kapkowski, for the performance of his duties in the financial year 2016
	25/X/2017	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Sławomir Karlikowski, for the performance of his duties in the financial year 2016
	26/X/2017	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Stanisław Misterek, for the performance of his duties in the financial year 2016
	27/X/2017	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Adam Partyka, for the performance of his duties in the financial year 2016
	28/X/2017	approving the Report of the Supervisory Board for the financial year 2016
	29/X/2017	concluding that the conditions entitling to exercise Options for 2016 have not been met
	30/X/2017	performance of the KPIs by the President of the Management Board, Mr Krzysztof Szlaga, for the financial year 2016
	31/X/2017	performance of the KPIs by the Vice-President of the Management Board, Mr Sławomir Karlikowski, for the financial year 2016

		32/X/2017	performance of the KPIs by the Vice-President of the Management Board, Mr Stanisław Misterek, for the financial year 2016
		33/X/2017	performance of the KPIs by the Vice-President of the Management Board, Mr Marcin Kapkowski, for the financial year 2016
		34/X/2017	performance of the KPIs by the Vice-President of the Management Board, Mr Adam Partyka, for the financial year 2016
		35/X/2017	authorising a member of the Supervisory Board to conclude, on behalf of the Company, the annexes to management services agreements concluded with the members of the Management Board
3/X/2017	4 August 2017	36/X/2017	approving the uniform text of the Company's Articles of Association
By corresp.	11 September 2017	37/X/2017	launching a procedure for the selection of an audit firm for Lubelski Węgiel Bogdanka S.A., approving the contents of the announcement, expressing consent for this procedure to be carried out along with the subsidiaries of Lubelski Węgiel Bogdanka S.A. and ENEA S.A. and its subsidiaries, as well as expressing consent for authorising Enea Centrum sp. z o.o. to prepare and conduct the procedure
4/X/2017	20 October 2017	38/X/2017	adopting the Rules and Regulations of the Supervisory Board
		39/X/2017	appointing the Chairman of the Audit Committee
By corresp.	30 October 2017	40/X/2017	launching a procedure for the selection of an audit firm for Lubelski Węgiel Bogdanka S.A., approving the contents of the announcement, expressing consent for this procedure to be carried out along with the subsidiaries of Lubelski Węgiel Bogdanka S.A. and ENEA S.A. and its subsidiaries, as well as expressing consent for authorising ENEA S.A. to prepare and conduct the procedure
5/X/2017	15 December 2017	41/X/2017	expressing consent for re-financing of the costs of an individual training course for the Vice-President of the Management Board, Employee and Social Affairs, Mr Adam Partyka

III. Information on the activities of the Supervisory Board Committees

In 2017, the composition of the the Audit Committee was as follows:

From 1 January 2017

1. Przemysław Krasadomski – Chairman of the Audit Committee,
2. Magdalena Kaczmarek – Member of the Audit Committee,
3. Michał Stopyra – Member of the Audit Committee.

In relation to changes in the composition of the Supervisory Board made on 7 March 2017 by the Extraordinary General Shareholders Meeting, the Supervisory Board, at its first meeting on 27 March 2017, complemented the composition of the Audit Committee by adding Mr Mariusz Romańczuk.

In connection with the fact that on 11 May 2017 the Act on Statutory Auditors, Audit Firms and Public Regulators became effective (on 21 October 2017 the "Adjustment Period" ended), at the Supervisory Board's meeting held on 20 October 2017, Mr Przemysław Krasadomski, Chairman of the Audit Committee, informed the Board that he did not meet the independence criteria within the meaning of the above-mentioned Act, and then submitted a written resignation from his position in the Audit Committee.

On 20 October 2017, Mr Michał Stopyra, an independent member of the Supervisory Board, was appointed as Chairman of the Audit Committee.

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

- 12 January 2017,
- 22 May 2017,
- 4 August 2017,
- 20 October 2017.

On 12 January 2017, the Audit Committee discussed and approved the Audit Plan for 2017 provided by the Management Board.

In 2017 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 get familiar with the current assessment of the risks at the Company. Each time before the financial statements and Directors' Reports on Operations were published, they had been subject to a review by the Audit Committee.

The Audit Committee approved the Policy for selecting an audit firm to conduct an audit of Lubelski Węgiel Bogdanka S.A., the Policy for providing permitted non-audit services by the audit firm and a Procedure for selecting an audit firm.

In relation to changes in the composition of the Supervisory Board made on 29 December 2017 by the Extraordinary General Shareholders Meeting, the Supervisory Board, at its first meeting on 5 January 2018, complemented the composition of the Audit Committee, which as at the date of the Report was as follows:

1. Anna Spoz – Chairperson of the Audit Committee,
2. Przemysław Krasadomski – Member of the Audit Committee,
3. Michał Stopyra – Member of the Audit Committee.

On 5 January 2018, the Audit Committee adopted a resolution on approval of the report on the procedure for selecting an audit firm for Lubelski Węgiel Bogdanka S.A. and on recommendations for the Supervisory Board selecting an entity authorised to audit the Company's statements, and a resolution on approval of the provision of permitted non-audit services to be rendered by the audit firm that the Supervisory Board will select to review and audit the financial statements of Lubelski Węgiel Bogdanka S.A. for 2018-2020.

IV. Composition of the Management Board

In 2017, the Management Board of the 9th term of office was as follows:

- Krzysztof Szlaga – President of the Management Board,
- Sławomir Karlikowski – Vice-President of the Management Board, Production, Manager 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.

On 16 February 2018 the Supervisory Board adopted a resolution on removal of Mr Krzysztof Szlaga from the position of the President of the Management Board and appointed Mr Sławomir Karlikowski to the position of acting President of the Management Board.

On 19 March 2018 the Supervisory Board of the Company appointed Mr Artur Wasił to the position of the President of the Management Board, effective 21 March 2018.

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

- Artur Wasił – President of the Management Board,
- Sławomir Karlikowski – Vice-President of the Management Board, Production, Manager 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 2017 were introduced under the Resolutions of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. of 7 March 2017 and of the Supervisory Board of the Company of 27 March 2017. All members of the Management Board (the Managers) entered into Management services agreements, on the following terms and conditions:

1. in consideration of the management services and other obligations under the Agreement, the Manager is entitled to receive total remuneration comprising the following elements:
 - lump sum monthly (for a calendar month) basic remuneration (Fixed Remuneration); and
 - supplementary remuneration for a given financial year (Variable Remuneration) which will depend on the degree of accomplishment of the Management Objectives determined by the Supervisory Board.
2. The resolution of the Supervisory Board specifying in detail the Management Objectives, the weights of those goals as well as the objective and measurable criteria for implementing and accounting for the goals in a given financial year will each time be adopted no later than on 30 April of the financial year in which such criteria will be in force.
3. The Variable Remuneration may not exceed 50% of the Manager's annual Fixed Remuneration. The annual Fixed Remuneration referred to above will be calculated in accordance with the following formula: the amount of the Fixed Remuneration in the previous financial year multiplied by 12.
4. The payment of the Variable Remuneration to a member of the Management Board is subject to the performance of the Manager of Management Objectives, after approval of the Directors' Report on Operations of the Company and financial statements of the Company for the previous financial year and after discharging the Manager of the duties of the Management Board member by the General Shareholders Meeting. If a Manager fulfills the function for a period shorter than one full financial year, this shall not revoke the right to Variable Remuneration, however provided that the time over which the function was held by the Manager in the Company's Management Board in the financial year under assessment was longer than six months. The Variable

Remuneration is calculated on a pro rata basis, depending on the number of days on which the Manager provided services in the financial year.

5. The Manager is entitled to a severance pay in the amount of the three-fold Fixed Remuneration on condition that the Manager holds their function for a period of at least 12 months prior to termination of the Agreement except for the following situations:
 - the Agreement is terminated, dissolved or amended as a result of change of the function held by the Manager on the Management Board,
 - the Agreement is terminated, dissolved or amended as a result of appointment of the Manager for the next term of office of the Management Board,
 - the Manager assumes the position of a member of the Management Board in a group company, within the meaning of Article 4.14 of the Act on the protection of competition and consumers of 16 February 2007.
 - the Manager resigns from the function held,
 - the Agreement is terminated by the Company in an immediate effect in the event of gross breach of the Agreement by the Manager.
6. For the compliance with the Non-Compete Agreement, after the Manager ceases to hold their function, the Manager who sits in the Management Board is entitled to compensation, for a period of at least 6 months, in the total amount to be calculated as follows: 0.5-fold of the monthly Fixed Remuneration multiplied by 6 to be paid in 6 equal monthly instalments by the 10th day of the following month. Any instalment of the compensation will be paid provided that the Manager submits a written statement on compliance with the Non-Compete Agreement after they ceased to hold their function at the Company by the 5th day of the month following the month for which the compensation is due. In case of a breach of the Non-Compete Agreement after the Manager ceased to hold their function during the term of the Non-Compete Agreement, the Company will have the right to demand that the Manager pay liquidated damages of 100% of the total compensation specified above.

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

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 (hereinafter referred to as Deloitte).

According to the Auditor, the audited Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2017 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2017 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 Commission, 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 2017, as well as the Company's financial and economic situation as at 31 December 2017. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the financial year 2017 and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka

Group for the financial year 2017 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.

At the time of performance of the above activities, 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. as referred to in Articles 69-73 of the Act on Statutory Auditors, Audit Firms and Public Regulators of 11 May 2017.

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.

On 5 January 2018, the Supervisory Board adopted a resolution on appointing PricewaterhouseCoopers Sp. z o.o. (PwC) with registered office in Warsaw, as an entity authorised to:

- review the Company's financial statements and the Group's consolidated financial statements for the first halves of 2018, 2019 and 2020,
- audit the financial statements of the Company and the consolidated financial statements of the Group for 2018, 2019 and 2020.

PricewaterhouseCoopers Sp. z o.o. since 16 February 1995, has been entered in the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 144.

The Company has earlier used the services of PricewaterhouseCoopers Sp. z o.o. and PwC chain entities with respect to: advisory services and preparation of a report regarding an issue prospectus of LWB S.A. shares, published in 2009; review and audit of separate and consolidated financial statements of financial years 2009-2011; advisory services regarding first application of IAS/IFRS; advisory services and audit regarding the scope of budget preparation (2011-2012); workshops on different subjects (2010); legal advisory (2012); tax advisory in 2014-2017 regarding excise tax; and reviewing the correctness of Excise Ratio calculations made by the Company for 2016;

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

1. Financial results

During 2017, LW Bogdanka S.A.'s revenue amounted to PLN 1,777,273,000 and was lower by PLN 4,503,000 (-0.3) compared to the revenue figure for 2016.

The main source of the Company's revenue was the production and sale of thermal coal. Between 1 January 2017 and 31 December 2017 this activity generated 97.4% of the Company's revenue (97.1% in the same period of the previous year).

2. Profitability ratios

The Company's profitability ratios stood at higher levels in 2017 compared to 2016. Gross margin on sales of LW Bogdanka went up from 12.4% (4 quarters of 2016) to 47.3% (4 quarters of 2017).

EBIT margin in the fourth quarter of 2017 was 138.9%, i.e. it was higher by 121.6 p.p. than in the fourth quarter of the previous year. EBIT for four quarters for 2017 was higher by 34.6 p.p. in relation to the same period of 2016 and was 47.3%.

For four quarters of 2017, Company's EBITDA margin amounted to 39.1%, i.e. more by 6.2 p.p. compared to the same period of 2016.

3. Coal production and sales

Lubelski Węgiel Bogdanka S.A. is Poland's leader among the producers of power coal. In the period from January to December 2017, the production of commercial coal was 9,050,000 tonnes, i.e. more by 0.1% than in the same period of 2016.

In the period from 1 January 2017 to 31 December 2017, the production of commercial coal was 9,151,000 tonnes, i.e. more by 0.1% than in the same period of 2016.

4. Strategy

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

Strategy Monitoring – 2017

The Company, as assumed in the Strategy of LW Bogdanka S.A. Mining Area of the Enea Group pursues the flexible development scenario. Average planned coal production for 2017-2020 accounts for 9.0 million tonnes. In 2017, the production of coal amounted to 9.1 million tonnes, and the plan for 2018 assumes retaining the indicated mining level.

The indicators for LW Bogdanka in 2017 are as follows:

- the unit mining cash cost dropped by 1.4% compared to the 2016 level (in nominal terms)
- Return on equity (ROE) dropped to 6.2% (from 7.9% in 2016)
- Return on assets (ROA) dropped to 4.3% (from 4.8% in 2016)
- EBITDA value dropped to PLN 579 million (from PLN 586 million in 2016)

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

LW Bogdanka S.A. was actively involved in the process of creating the Kozienice-Bogdanka-Połaniec mining and power generation area. The project is deemed to be completed. Operating activities are now in progress.

Development of resource base and longer life of the mine

In accordance with the adopted Strategy, LW Bogdanka S.A. 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 extraction 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 exploitable resources of about 172 million tonnes).

On 17 November 2017, LW Bogdanka S.A. received a licence for the Ostrów deposit (OG Ludwin); currently held exploitable resources stand at a level of approx. 399 million Mg.

At the same time, LW Bogdanka S.A. continues to treat the K-6 and K-7 deposits and the Orzechów area as prospective locations of future mining operations.

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 LW Bogdanka S.A.

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 S.A. of an integrated gasification combined cycle (IGCC) system for production of fuel for power generation. The implementation of the project will make a new market for hard coal 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 S.A. 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. The project has been completed.
3. Smart Solutions Mine – even today LW Bogdanka S.A. 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. The project "Smart Mine 4.0" has been launched.
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's aim 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. At the moment the project involving the use of waste rock for road construction has been completed at the stage of Studies and Analyses.
5. Operator's services provided by LW Bogdanka S.A. – the Company 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 the Central and Eastern Europe. The project is to be launched.
6. Further work safety improvement programme – for years, work safety has been a top priority for LW Bogdanka S.A. Also the current strategic framework considers the safety and health of employees to be an issue of overriding importance. The work safety improvement programme has been completed. The second stage of the project has been launched.

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.

Capital expenditure

The baseline scenario assumes CAPEX in the amount of PLN 3.7 billion (nominally) over 2016-2025. The flexible development scenario, currently underway, assumes capital expenditure to amount PLN 4 billion in this period (mainly mining excavations, 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 S.A. wants to maintain the assumed production level after 2030.

Preliminary estimates show that the total capital expenditure 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 expenditure in the current Strategy (except initial outlays of approx. PLN 70 million).

The plan of capital expenditure also excludes the implementation of new strategic initiatives.

In 2017, the capital expenditure amounted to PLN 365,257,000. The Company's plan for the capital expenditure for 2018 assumes the amount of PLN 485,370,000.

Dividend policy

In the future, the Management Board of LW Bogdanka S.A. intends to request the General Shareholders Meeting for approval of dividends up to 50% of the net profit 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 capital expenditure and investments,
- projected debt of the Company.

In 2017, dividend was paid for 2016 in the amount of PLN 34,013,590, i.e. PLN 1 per share. This accounted for 19.3% of Company's profit for 2016.

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 audit firms 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.

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 serves as a basis for the preparation of periodic reports is derived from 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.

The internal control system and the risk management system are subject to assessment by a separate organisational unit, i.e. the Audit and Internal Control Department, to be carried out during audit and control activities. The Audit and Internal Control Department operates under the conditions that guarantee objectivity and independence. It is directly supervised by the President of the Management Board. Its members notify the Audit Committee of the Supervisory Board of their actions. The Department is also independent of the operating functions.

Audit tasks at LW Bogdanka S.A. are carried out in compliance with the Audit Plan adopted by virtue of a resolution of the Management Board and approved by the Audit Committee. The Plan has been developed on the basis of the risk assessment conducted in relation to individual areas of the Company's operations.

Audit results, recommendations and reports on the implementation of such recommendations (covered by the effective monitoring process by the Audit and Internal Control Department) are submitted to the Company's Management Board on an ongoing basis and periodically (at least twice a year) to the Audit Committee of the Supervisory Board.

As a result of the audit tasks carried out in 2017, remedial actions have been implemented to eliminate ineffective control mechanisms and minimise potential risks to the processes that were covered by the audit.

The Supervisory Board is of the opinion that the risk management and internal control systems in place at LW Bogdanka S.A. in 2017 ensured security of the Company's operations. The Management Board accurately identified the risks related to the activities of LW Bogdanka S.A., monitored them on

an ongoing basis and managed them effectively, and the activities carried out by the Audit and Internal Control Department contribute to enhancing the internal control system and its constant development.

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 Poznań-based PBSG Sp. z o.o. 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 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 basic documents of the corporate risk management system in place at the Company in 2017 included the following:

- LW Bogdanka S.A. Corporate Risk Management Policy,
- Model of corporate risk management in LW Bogdanka S.A. - ERM procedures,
- LW Bogdanka S.A. Risk Register,
- LW Bogdanka S.A. Risk Map,
- List of strategic risks of LW Bogdanka S.A.
- Programmes of strategic risk mitigating measures at the Company.

In 2017 the Company along with ENEA S.A. (Risk Management Department) worked with the aim of integrating risk management at the whole ENEA Group.

As part of the integration process within the Enea Group, LW Bogdanka S.A., in line with the relevant Group regulations, has implemented the applicable "Secondary Documents", including:

1. Regulations of the Risk Committee of the ENEA Group.
2. Corporate Risk Management Policy at the ENEA Group.
3. Corporate Risk Management Methodology at the ENEA Group.

By virtue of Regulation No. 26/2017 of the President of the Management Board of the Company dated 18 October 2017, Rules and Regulations on the protection and circulation of information between LW Bogdanka S.A. and the ENEA Group were introduced. The Rules and Regulations specify, *inter alia*, the conditions under which information may be transferred to the Group as regards the outcome of risk management at the Company. On that basis, in January 2018, the Company implemented a uniform system applicable to the entire Group (in accordance with the ERM methodology of the ENEA Group). In accordance with the rules in force within the Group, on 31 January 2018, LWB S.A. created the LWB S.A. Risk Register with 200 risks applicable to all the business operations pursued by the enterprise, including 51 major and 149 minor risks. No key risks were included.

The Company provides information and reports with respect to the ERM to the Supervisory Board and the Audit Committee.

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

The risk management system of the Company includes:

- ENEA Group Risk Committee,
- The Supervisory Board of the Company,
- Management Board of LW Bogdanka S.A.,
- Audit Committee of the Supervisory Board,
- Managers of the Company's organisational units – risk owners
- Risk Management Department of LW Bogdanka S.A.

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 2017 the Company conducted sponsorship operations based on the documents applicable at the Company:

- Sponsorship Strategy for LW Bogdanka S.A. – 1 July 2016 – 30 June 2017 (with respect to the first half of the year);
- Sponsorship Strategy for LW Bogdanka S.A. – 1 July 2017 – 30 June 2018 along with a review of the budget for 1 January 2017 – 30 June 2017 (with respect to the second half of the year).

The two main areas of these operations (continued for a number of years) include supporting sports and social and cultural events in the local community, additionally to the pursued CSR policy.

The major beneficiary of the Company's sponsorship budget is Górnik Łęczna S.A., an entity that manages professional football teams. The first team in the 2016/2017 season competed in the Ekstraklasa, i.e. Polish top league, but after the 2017 spring round the Łęczna team fell to the 1st league. The new situation of Górnik Łęczna S.A. triggered organisational changes and was also a reason why some players and staff members had to be replaced. At the same time, Górnik Łęczna S.A. decided to place even more emphasis on training the youth. The team's footballers are now given a chance to play during league matches. The changes also resulted from the budget, which has been reduced since the team left the top league. For example, funds which used to be obtained from the rights to broadcast top league matches are no longer available. Another effect of the move to the lower league (but this time an effect that was welcomed by the local supporters who include LW Bogdanka's employees and their family members) was that the team returned to playing on their home football pitch in Łęczna.

Due to social expectations (including the representatives of the local community), the Strategic Sponsor, i.e. Lubelski Węgiel Bogdanka S.A. maintained the existing rules of cooperation and financing of the sponsorship agreement in the 2017/2018 season with Górnik Łęczna S.A., i.e. determined the maximum budget for the season at the level of PLN 5.2 million net. As a result of

such a decision, the inhabitants of Łęczna could continue their football-related traditions. Moreover, the Company could satisfy the inhabitants' expectations that the first team will compete on a central level. From the perspective of the local community, it is also important that Górnik Łęczna S.A. continues to invest in the sports education of the youth – not only with respect to football – this allows the youngest inhabitants to spend their free time after school in an enjoyable way and to develop their sport-related talents and passions. To intensify its educational activities, in the second half of the year, Górnik Łęczna S.A. established a Foundation of the Górnik Łęczna Sports Academy, to which a portion of the funds from the above-mentioned sponsorship budget is allocated as part of the cooperation with the Bogdanka mine. The Academy is attended by children and teenagers from Łęczna and the nearby areas. They receive regular training under the supervision of professional coaches.

In the second half of 2017, Lubelski Węgiel Bogdanka S.A. allocated a part of the sponsorship budget in the amount of PLN 0.5 million net for the purposes related to the cooperation with the owner of the sports facilities in Łęczna, i.e. the GKS Górnik Łęczna Association. The sponsorship support was related to the modernisation of the lighting at the stadium in exchange for which the Association undertook to provide promotional services to the sponsor in cooperation with a female football team that plays matches in the Polish Ekstraliga female football league.

This cooperation has brought a major improvement to the standard of the sports infrastructure in Łęczna. Not only did the conditions to play sport improve, but also the Company's image gained importance, and it became possible to organise league matches in Łęczna.

Another entity LW Bogdanka S.A. cooperated with in 2017 with respect to sport sponsoring was MGKS Gwarek Łęczna, professional boxing club with successful competitors (both in Poland and abroad) of various age categories.

As an important element of its sponsorship activity, the Company supports various, mostly local, social and cultural projects in exchange for promotional services. One of the events that the Company sponsored in 2017 was the Lublin-based Carnival of Magicians, a cultural event that is well-known in Poland and has for many years now been associated with the Bogdanka brand.

When decisions were made on whether to sponsor a given event, the Company considered the main recipients/ participants of a project (e.g. sponsorship for the artistic performances for the patients of the University Children's Hospital in Lublin) and such aspects as the preservation of national tradition and patriotic attitude. The fact that the sponsored projects had an influence on the immediate surroundings of the towns located around the mine was also of significance.

All sponsorship projects pursued in 2017 translates into media attention and building a positive image of LW Bogdanka S.A. 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 S.A. is a responsible company which, despite changes in the environment, has a consistent and positive response to social expectations,
- cooperation was carried out in 2017 with selected sport entities 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, with the cooperation with the CSR Section, 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 2017, LW Bogdanka S.A. complied with the new rules of the "Best Practice for WSE Listed Companies" (hereinafter the "Best Practice for WSE Listed Companies"), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warsaw of 13 October 2015. The Best Practice for WSE Listed Companies is available on the WSE website devoted to 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.

In 2017 the Company did not apply the following 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."
Comment: Decisions related to the composition of the Company's Supervisory Board are made by the General Shareholders Meeting of LW Bogdanka S.A. and the Minister of Energy, in accordance with Article 16.4 of the Company's Articles of Association, therefore the Company may periodically fail to meet the criteria of this principle. On 20 December 2017, the Minister of Energy appointed an independent member of the Supervisory Board, Ms Anna Spoz; since then the Company has fulfilled the above criteria.
3. 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 2018 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 S.A. for 2017.

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 achieved level of production and financial results is a result of a consistently pursued Development Strategy of LW Bogdanka S.A. Mining Area of the Enea Group until 2025 (under the 2030 framework), adopted on 9 February 2017. LW 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. 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 the assessment of the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. in 2017, the financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2017, Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group, consolidated financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2017, and the motion of the Management Board regarding distribution of profit for the financial year 2017

Pursuant to the provisions of Article 382.3 of the Commercial Companies Code, Article 17.1.1 of the Articles of Association, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. made a review and an assessment of:

1. Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for 2017, including a statement on non-financial information.
2. Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2017, including:
 - statement of financial position (balance sheet) prepared as of 31 December 2017, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 4,116,044,000;
 - income statement for the period from 1 January 2017 to 31 December 2017, showing net profit in the amount of PLN 673,281,000;
 - statement of comprehensive income for the period from 1 January 2017 to 31 December 2017 showing a total comprehensive income in the amount of PLN 648,975,000;

- statement of movements in the equity for the period from 1 January 2017 to 31 December 2017, showing an increase in the equity by PLN 614,961,000;
 - statement of cash flows for the period from 1 January 2017 to 31 December 2017, showing a net decrease in cash and its equivalents by PLN 96,605,000;
 - notes, detailing for the adopted accounting policy, as well as additional information.
3. Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for 2017, including a statement on non-financial information.
 4. Consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2017, including:
 - consolidated statement of financial position (balance sheet) prepared as of 31 December 2017, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 4,158,872,000;
 - consolidated income statement for the period from 1 January 2017 to 31 December 2017, showing net profit in the amount of PLN 667,925,000;
 - consolidated statement of comprehensive income for the period from 1 January 2017 to 31 December 2017 showing a total comprehensive income in the amount of PLN 643,590,000;
 - consolidated statement of movements in the equity for the period from 1 January 2017 to 31 December 2017, showing an increase in the equity by PLN 609,120,000;
 - consolidated statement of cash flows for the period from 1 January 2017 to 31 December 2017, showing a net decrease in cash and its equivalents by PLN 106,178,000;
 - 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 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 2017 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2017 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 2017 financial year, as well of the Company's financial and economic situation as at 31 December 2017. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the 2017 financial year, including a statement on non-financial information, and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2017, including a statement on non-financial information, 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 positively assesses the Management Board's motion to the Annual General Shareholders Meeting regarding the distribution of net profit for 2017, according to which the net profit generated by the Company in 2017 in the amount of **PLN 673,281,183.53** will be allocated to the Company's reserve capital in full amount.

VIII. Relations with trade unions

Four union organisations operate at the Company.

As at 31 December 2017, the size of the individual trade unions was as follows:

- "Solidarność" Independent Self-Governing Trade Union – 1,080 members

- Trade Union of Miners in Poland – 1,577 members
- “Kadra” Trade Union – 283 members
- “Przeróbka” Trade Union – 289 members.

At the end of 2017, the number of staff employed at the Company amounted to 4,471 persons. In total, 3,229 employees were members of trade union organisations, which constitutes 72.2% of the total head count.

Cooperation of the Management Board of LW Bogdanka S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

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 2017, 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 2017 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 has assessed 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 formed by the Company's performance and its 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.

The rules regarding the remuneration of the Supervisory Board members were defined by virtue of Resolution No. 5 of the Extraordinary General Shareholders Meeting of 7 March 2017 on the rules for determining the remuneration of the Supervisory Board members. The remuneration of members of the Supervisory Board was determined by virtue of resolution No. 30 of the General Shareholders Meeting of LW Bogdanka S.A. of 26 June 2017 as a product of the average monthly 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 Statistics Office of Poland and the multiplier 1.2. The remaining provisions regarding the rules of remuneration for the Company's Supervisory Board contained in Resolution No. 5 of the Extraordinary General Shareholders Meeting dated 7 March 2017 remained unchanged, which means that under the regulations of the ENEA Group, the indicated representatives of the ENEA Group who sit in the Company's Supervisory Board are not entitled to any remuneration.

In 2017, a total gross remuneration paid to the Supervisory Board members for performing their duties in the Company amounted to PLN 272,063.80. 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. In 2017, the total costs mentioned above amounted to PLN 12,779.57.

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 2017.

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

1.	Mirosław Kowalik	Chairman of the Board
2.	Przemysław Krasadomski	Deputy Chairman of the Supervisory Board
3.	Szymon Jankowski	Secretary of the Supervisory Board
4.	Ewa Nowaczyk	Member of the Supervisory Board
5.	Kamil Patyra	Member of the Supervisory Board
6.	Mariusz Romańczuk	Member of the Supervisory Board
7.	Anna Spoz	Member of the Supervisory Board
8.	Michał Stopyra	Member of the Supervisory Board

Warsaw, 18 May 2018