



**LUBELSKI WĘGIEL „BOGDANKA”**

**SPÓŁKA AKCYJNA**

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD  
OF LUBELSKI WĘGIEL BOGDANKA S.A.  
FOR THE FINANCIAL YEAR 2018**

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## **I. Term of office and composition of the Supervisory Board**

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

The Supervisory Board is appointed for a three-year 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 Supervisory Board of the 10th term of office operated in 2018. As at 31 December 2018 and as at the day of submitting the Report, the Supervisory Board was composed of:

- |                           |                                            |
|---------------------------|--------------------------------------------|
| 1. Mirosław Kowalik       | - Chairman                                 |
| 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 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 2018 were convened by the Chairman of the Supervisory Board. 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 15 meetings and adopted resolutions in a manner other than at a meeting (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 76 resolutions.

The Supervisory Board's meeting held on 16 February 2018 was not attended by Mr Przemysław Krasadomski, and the meeting held on 2 March 2018 was not attended by Mr Mirosław Kowalik; the Supervisory Board justified their absence and adopted relevant resolutions. Other Supervisory Board meetings were attended by all members.

During the meetings held in 2018, the Supervisory Board worked on the following issues (without limitation):

- the Company's and the Group's current situation as regards economic, financial and social issues;
- changes in the composition of the Audit Committee;
- selection of the company to review and audit the financial statements of the Company and the LW Bogdanka Group (hereinafter the Group) for 2018-2020;
- appointment of the Deputy Chairman of the Supervisory Board;
- information of the rules governing granting powers of proxy related to procurement procedures;
- approval of the Company's Technical and Business Plan for 2018;
- information on personnel fluctuations and assumptions of the HR policy in 2017-2018;
- information on the forecast level of inventories of coal in 2018;
- information regarding performance of the assumed schedules for heading excavations in 2016-2017 with an account taken for liquidation of excavations and the amount of coal in cut walls in that period;
- procedure of qualifying new members of the Management Board;
- appointment of the President of the Management Board and new members of the Management Board of LWB S.A.;
- audit opinions and reports on the Company's and the Group's financial statements for 2017 prepared by an auditor,
- the Company's and the Group's financial statements for 2017;
- Director's Reports on Operations of the Company and of the Group for 2017;
- report of the Supervisory Board for 2017;
- Report on hospitality expenditure, legal services expenditure, marketing services expenditure, expenditure on public relations and social communication services as well as management consulting services;
- distribution of net profit for 2017;
- matters to be covered by resolutions of the Annual General Shareholders Meeting;
- report on the performance of conditions entitling to the exercise of Options (PMO);
- information on the performance of the Strategy of LW Bogdanka until 2025 with an account taken of changes in the thermal coal market and middle-term price forecasts;
- information on the performance of the Sponsorship Strategy for Lubelski Węgiel Bogdanka S.A. and donations granted by the Company and its subsidiaries in 2017 and the first half of 2018;
- information on costs incurred by the Company as a result of management services agreements 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 annexes to management services agreements concluded with the members of the Management Board;
- information on the planned scope and purpose of changes in the Collective Bargaining Agreement;
- information on the feasibility of closing the Management Options Scheme;
- information on the reasons for signing annexes to selected agreements for mining works in 2016-2018;
- information on entities with necessary authorisations to carry out technical audits in selected areas of operations in the Mining Plant and potential costs of performing works;
- information on the statistics of granting bonuses as part of the bonus system in force;
- information on the results of inspection carried out by the Customs and Tax Office of Lublin with respect to the correctness of CIT for 2012-2015;
- granting consent to conclude a donation agreement with the "Solidary Miners" Foundation.

Resolutions adopted by the Supervisory Board in 2018:

Minutes No.	Date of the meeting	Resolution No.	Subject matter of the resolution
6/X/2018	5 January 2018	42/X/2018	removal of the Chairman of the Audit Committee
		43/X/2018	removal of a member of the Audit Committee
		44/X/2018	appointment of the Chairman of the Audit Committee
		45/X/2018	appointment of a member of the Audit Committee
		46/X/2018	selecting an entity authorised to review and audit the financial statements of the Company and the consolidated financial statements of the Group for 2018, 2019 and 2020
7/X/2018	29 January 2018	47/X/2018	appointment of the Deputy Chairman of the Supervisory Board
		48/X/2018	approval of the Technical and Business Plan of Lubelski Węgiel Bogdanka S.A. for 2018
8/X/2018	16 February 2018	49/X/2018	justifying the absence of the Supervisory Board member
9/X/2018	16 February 2018	50/X/2018	justifying the absence of the Supervisory Board member
		51/X/2018	removal of a member of the Management Board
		52/X/2018	appointment to the position of the President of the Management Board
		53/X/2018	initiation of qualifying procedure to the position of President of the Management Board of the Company as well as adopting detailed rules and the mode of the qualifying procedure
		54/X/2018	appointment of a committee for the review of applications filed in the qualification procedure to the position of the President of the Management Board
10/X/2018	27 February 2018	55/X/2018	approval of a report prepared by the committee appointed for the review of applications filed in the qualification procedure to the position of the President of the Management Board
		56/X/2018	admittance of candidates for the President of the Management Board, whose applications were filed in due time and meet the requirements specified in the announcement on the qualification procedure, to next phases of the qualification procedure
		57/X/2018	approval of the set of qualification questions for the candidates for the President of the Management Board
11/X/2018	3 February 2018	58/X/2018	justifying the absence of the Supervisory Board member
		59/X/2018	completion of the qualification procedure to the position of the President of the Management Board
		60/X/2018	initiation of qualifying procedure to the position of President of the Management Board of the Company as well as adopting detailed rules and the mode of the qualifying procedure
		61/X/2018	appointment of a committee for the review of applications filed in the qualification procedure to the position of the President of the Management Board
12/X/2018	16 March 2018	62/X/2018	approval of a report prepared by the committee appointed for the review of applications filed in the qualification procedure to the position of the President of the Management Board

		63/X/2018	admittance of candidates for the President of the Management Board, whose applications were filed in due time and meet the requirements specified in the announcement on the qualification procedure, to next phase of the qualification procedure
		64/X/2018	approval of the set of qualification questions to candidates for the President of the Management Board
13/X/2018	19 March 2018	65/X/2018	defining the sequence of candidates to the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A.
		66/X/2018	selection of the best candidate to the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A.
		67/X/2018	appointment to the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A.
		68/X/2018	authorising a member of the Supervisory Board to conclude, on behalf of the Company, a management services agreement with the President of the Management Board
by corresp.	28 March 2018	69/X/2018	approval to conclude by the Company of a settlement with the consortium of Mostostal Warszawa S.A. and Acciona Construcción S.A.
by corresp.	26 April 2018	70/X/2018	defining the Management Objectives (KPIs) for 2018 for the President of the Management Board, Mr Artur Wasil
by corresp.	26 April 2018	71/X/2018	defining the Management Objectives (KPIs) for 2018 for the Vice-President of the Management Board responsible for Production, Head of Mining Supervision in Mining Facility, Mr Sławomir Karlikowski
by corresp.	26 April 2018	72/X/2018	defining the Management Objectives (KPIs) for 2018 for the Vice-President of the Management Board responsible for Procurement and Investments, Mr Marcin Kapkowski
by corresp.	26 April 2018	73/X/2018	defining the Management Objectives (KPIs) for 2018 for the Vice-President of the Management Board responsible for Economic and Financial Affairs, Mr Stanisław Misterek
by corresp.	26 April 2018	74/X/2018	defining the Management Objectives (KPIs) for 2018 for the Vice-President of the Management Board responsible for Employee and Social Affairs, Mr Adam Partyka
by corresp.	8 May 2018	75/X/2018	amendment of the Supervisory Board's resolution No. 38/2016 dated 13 May 2016
by corresp.	8 May 2018	76/X/2018	amendment of the Supervisory Board's resolution No. 8/X/2017 dated 27 March 2017
by corresp.	8 May 2018	77/X/2018	concluding an annex to the management services agreement with a member of the Management Board and authorising a member of the Supervisory Board to conclude this annex on behalf of the Company
by corresp.	8 May 2018	78/X/2018	amendment of the Supervisory Board's resolution No. 71/X/2018 dated 26 April 2018
14/X/2018	18 May 2018	79/X/2018	assessing the Company's and the Group's financial statements for the financial year 2017
		80/X/2018	assessing the Directors' Report on Operations of the Company and of the Group for the financial year 2017
		81/X/2018	assessment of the Management Board's motion regarding the

			distribution of net profit for 2017
		82/X/2018	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 2017
		83/X/2018	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 2017
		84/X/2018	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 2017
		85/X/2018	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 2017
		86/X/2018	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 2017
		87/X/2018	approval of the Report of the Supervisory Board for the financial year 2017
by corresp.	29 May 2018	88/X/2018	giving opinion on the Report on hospitality expenditure, legal services expenditure, marketing services expenditure, expenditure on public relations and social communication services as well as management consulting services for 2017
by corresp.	29 May 2018	89/X/2018	approval of sponsorship Strategy for Lubelski Węgiel Bogdanka S.A. – 1 July 2018 – 31 December 2021
by corresp.	9 July 2018	90/X/2018	granting consent for concluding the sponsorship agreement between Lubelski Węgiel Bogdanka S.A. and Górnik Łęczna S.A. for the period from 1 July 2018 to 31 December 2021
15/X/2018	30 July 2018	91/X/2018	determining the remuneration of Management Board members
		92/X/2018	drafting the annexes to management services agreements concluded with the members of the Management Board and authorising a member of the Supervisory Board to conclude these annexes on behalf of the Company with the members of the Management Board
16/X/2018	19 September 2018	93/X/2018	drafting the annexes to management services agreements concluded with the members of the Management Board and authorising a member of the Supervisory Board to conclude these annexes on behalf of the Company with the members of the Management Board
		94/X/2018	granting consent for concluding by the Company of a settlement with the receiver of the WONAM Group in liquidation bankructcy ( <i>w upadłości likwidacyjnej</i> ) with registered office in Pszczyna
		95/X/2018	granting consent for incurring costs of an individual training course for the President of the Management Board, Mr Artur Wasil

		96/X/2018	granting consent to incurring costs of an individual training course for the Vice-President of the Management Board responsible for Production and Development, Mr Sławomir Karlikowski
		97/X/2018	granting consent for incurring costs of an individual training course for the Vice-President of the Management Board responsible for Employee and Social Affairs, Mr Adam Partyka
		98/X/2018	granting consent for incurring costs of an individual training course for the Vice-President of the Management Board responsible for Procurement and Investments, Mr Marcin Kapkowski
17/X/2018	19 September 2018	99/X/2018	removal of a member of the Management Board
		100/X/2018	removal of a member of the Management Board
		101/X/2018	initiation of qualifying procedure to the position of Vice-President of the Management Board responsible for Development and Vice-President of the Management Board responsible for Economic and Financial Affairs as well as adopting detailed rules and the mode of the qualifying procedure
		102/X/2018	appointment of committee for the review of applications filed in the qualification procedure to the position of the Vice-President of the Management Board responsible for Development and the Vice-President of the Management Board responsible for Economic and Financial Affairs
18/X/2018	2 October 2018	103/X/2018	approval of a report prepared by the committee appointed for the review of applications filed in the qualification procedure to the position of the Vice-President of the Management Board responsible for Development and the Vice-President of the Management Board responsible for Economic and Financial Affairs
		104/X/2018	admittance of candidates for the Vice-President of the Management Board responsible for Development and the Vice-President of the Management Board responsible for Economic and Financial Affairs, whose applications were filed in due time and meet the requirements specified in the announcement on the qualification procedure, to next phase of the qualification procedure
		105/X/2018	approval of the set of qualification questions for the candidates for the Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
		106/X/2018	approval of the set of qualification questions for the candidates for the Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
19/X/2018	4 October 2018	107/X/2018	defining the sequence of candidates to the position of the Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
		108/X/2018	defining the sequence of candidates to the position of the Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.



		109/X/2018	selection of the best candidate to the position of the Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
		110/X/2018	selection of the best candidate to the position of the Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
		111/X/2018	appointment to the position of the Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
		112/X/2018	appointment to the position of the Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
		113/X/2018	amendment of the Supervisory Board's resolution No. 91/X/2018 dated 30 July 2018 regarding the remunerations for the members of the Management Board of the Company
		114/X/2018	authorising a member of the Supervisory Board to conclude, on behalf of the Company, a management services agreements with the Vice-President of the Management Board responsible for Development and the Vice-President of the Management Board responsible for Economic and Financial Affairs
20/X/2018	19 November 2018	115/X/2018	granting consent to conclude a donation agreement with the "Solidary Miners" Foundation with its registered office in Bogdanka
		116/X/2018	granting consent for incurring costs of an individual training course for the Vice-President of the Management Board responsible for Economic and Financial Affairs, Mr Artur Wasilewski
		117/X/2018	commissioning the preparation of a legal opinion

### III. Information on the activities of the Supervisory Board Committees

The Supervisory Board, at its meeting held on 5 January 2018, introduced changes in the composition of the Audit Committee, and appointed Ms Anna Spoz to the position of a Chairperson of the Audit Committee.

As at the day of submitting the Report, the composition of the Audit Committee 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.

In 2018, eight meetings of the Audit Committee were held on the following dates:

- 5 January 2018,
- 29 January 2018,
- 16 March 2018,
- 18 May 2018,
- 28 June 2018,
- 30 July 2018,
- 19 September 2018,
- 19 November 2018.

On 5 January 2018, the Audit Committee adopted resolutions 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
- 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.

As part of its works involving the monitoring of the financial reporting procedure, on 16 March 2018 the Audit Committee held a meeting with the audit firm, Deloitte sp. z o.o. sp. k., with a view to discussing the financial statements of Lubelski Węgiel Bogdanka S.A. and the consolidated financial statements of the Group for the financial year ended on 31 December 2017. At a meeting held on 18 May 2018 the Audit Committee adopted a resolution on issuing opinions on the Company's and the Group's financial statements for the financial year 2017.

In 2018, the Audit Committee held four meetings (18 May 2018, 28 June 2018, 30 July 2018, 4 September 2018) with the audit firm, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. (formerly: PricewaterhouseCoopers sp. z o.o.) which was commissioned an audit of the financial statements of Lubelski Węgiel Bogdanka S.A. and the consolidated financial statements of the Group for the financial year ended on 31 December 2018. During the meetings, the auditor's independency was confirmed; the parties also discussed the rules of cooperation and the scope of works performed during a review of the consolidated package for the period of six months ended on 30 June 2018; conclusions from the meeting of the auditor with the Management Board and remarks with respect to the accounting policies applicable at the Company were presented. Strategy and plan of the audit of separate and consolidated financial statements were discussed during a meeting of the Audit Committee with the auditor on 29 January 2019.

Each time before the periodic reports were published (23 March 2018, 24 May 2018, 13 September 2018, 23 November 2018), and before financial statements and Directors' Reports on Operations were published, they were subject to a review by the Audit Committee.

On 6 November 2018 the Audit Committee adopted a resolution on granting consent to performing a service involving the calculation of an excise tax indicator by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.). In order to monitor the efficiency of internal control and risk management systems as well as the system of internal audit, 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 for respective quarters 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.

On 29 January 2018, the Audit Committee discussed and approved the Audit Plan for 2018 provided by the Management Board.

The Audit Committee also worked on day-to-day matters, e.g. information about warehouse umbrella roof in Stefanów.

#### **IV. Composition of the Management Board**

Until 16 February 2018, the Management Board of the 9th term of office operated in the following composition:

- Krzysztof Szłaga – 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.

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 Wasil to the position of the President of the Management Board, effective as of 21 March 2018.

On 19 September 2018 the Supervisory Board adopted a resolution on removal of Mr Sławomir Karlikowski and Mr Stanisław Misterek from the Management Board of Lubelski Węgiel Bogdanka S.A.

On 4 October 2018 the Supervisory Board adopted a resolution on the appointment of Mr Dariusz Dumkiewicz to the position of Vice-President of the Management Board responsible for Development as from 15 October 2018 and Mr Artur Wasilewski to the position of Vice-President of the Management Board responsible for Economic and Financial Affairs as from 8 October 2018.

On 18 January 2019 Mr Marcin Kapkowski, Vice-President of the Management Board for Procurement and Investments, filed a resignation from his function as a member of the Company's Management Board with effect from 31 January 2019.

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

- Artur Wasil – President of the Management Board,
- Dariusz Dumkiewicz – Vice-President of the Management Board, Development,
- Adam Partyka – Vice-President of the Management Board, Employee and Social Affairs,
- Artur Wasilewski – Vice-President of the Management Board, Economic and Financial 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 2018 were introduced under the Resolutions of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. dated 7 March 2017 and of the Supervisory Board of the Company dated 27 March 2018, and on 30 July 2018 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 resulting from 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 their duties as 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 deprive the Manager of 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 6 (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,
    - they are appointed as a member of the management board of within the Group within the meaning of Article 4.14 of the Act on the protection of competition and consumers of 16 February 2007,
    - they resign from the function held,
    - the Agreement is terminated by the Company with an immediate effect in the event of a 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 the financial statements of the Company and the consolidated financial statements of the Group for the first halves of 2018, 2019 and 2020 and to audit the financial statements of the Company and the consolidated financial statements of the Group for 2018, 2019 and 2020 as well as 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. 46/X/2018 of 5 January 2018, appointed PricewaterhouseCoopers Sp. z o.o. (currently PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.) with registered office in Warsaw (hereinafter: PwC) as the auditor. PwC, 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 registration 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 for financial years 2009-2011; advisory services regarding first-time 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, without limitation, excise tax; and reviewing the correctness of excise tax indicator calculations made by the Company for 2016.

In the opinion of the Auditor the separate financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2018 and the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2018 in all material aspects were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union and the adopted accounting principles (policies).

The financial statements under assessment comply in form and contents with the binding provisions of law and the Company's Articles of Association. They have been prepared based on correctly maintained accounting books, in compliance with Chapter 2 of the Accounting Act of 29 September 1994 (Accounting Act, uniform text, Dz.U. [Journal of Laws] of 2019, item 351, as amended) and clearly and reliably present all information necessary for evaluating the Company's profitability and operating profit (loss) for the 2018 financial year, as well of the Company's financial and economic situation as at 31 December 2018. The Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. and of the Lubelski Węgiel Bogdanka Group for 2018 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.

At the time of performance of the above activities, PwC, 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.

PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k., in 2018, in addition to auditing the separate financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2018, and the consolidated financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2018 and a review of interim financial statements, also performed:

- other attestation services (audit and review of a group package for the purposes of ENEA),
- review of the correctness of calculations regarding the excise tax indicator for 2017.

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

### **1. Financial results**

During 2018, LW Bogdanka S.A.'s revenue amounted to PLN 1,754,896,000 and was lower by PLN 22,377,000 (-1.3%) compared to the revenue figure for 2017.

The main source of the Company's revenue was the production and sale of thermal coal. Between 1 January 2018 and 31 December 2018 this activity generated 97.7% of the Company's revenue (97.4% in the same period of the previous year).

### **2. Profitability ratios**

The Company's profitability ratios stood at lower levels in 2018 compared to 2017. Gross sales margin of LW Bogdanka S.A. fell from 47.3% (2017) to 1.4% (2018).

EBIT margin in 2018 was 3.3%, i.e. it was lower by 44.0 p.p. than in the previous year.

For 2018, the Company's EBITDA margin amounted to 26.0%, i.e. less by 13.1 p.p. compared to the same period of 2017.

### **3. Coal production and sales**

Lubelski Węgiel Bogdanka S.A. is a domestic leader on the market of thermal coal producers. In the period from January to December 2018, the production of commercial coal was 9,007,000 tonnes, i.e. less by 0.5% than in the same period of 2017.

In the period from 1 January 2018 to 31 December 2018, the production of commercial coal was 8,943,000 tonnes, i.e. less by 2.3% than in the same period of 2017.

### **4. Strategy**

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

##### **Strategy Monitoring – 2018**

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 2018, Bogdanka's production of commercial coal amounted to 9.01 million tonnes.

The indicators for LW Bogdanka in 2018 are as follows:

- the unit mining cash cost increased by 17% compared to the 2017 level (in nominal terms)
- return on equity (ROE) dropped to 1.8% (from 6.2% in 2017)
- return on assets (ROA) dropped to 1.3% (from 4.3% in 2017)
- EBITDA value dropped to PLN 455 million (from PLN 579 million in 2017)

##### **Development of resource base and longer life of the mine**

In accordance with the adopted Strategy, LW Bogdanka intends to double its exploitable resources in the Lublin Coal Basin (from 227 million tonnes in 2016 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 exploitable resources of about 172 million tonnes).

On 17 November 2017, LW Bogdanka S.A. received a licence for the Ostrów deposit (Ludwin Mining Area).

As at 31 December 2018 the exploitable resources were as follows:

- 193 million Mg of exploitable resources in the Puchaczów V Mining Area.
- 24 million Mg of exploitable resources in the Stręczyn Mining Area.
- 172 million Mg of exploitable resources in the Ludwin Mining Area.

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" is now underway.
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 phase of closing the second stage is currently underway.

## **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). This expenditure would be spent to create the Ludwin Mining Area mining plant (on the Ostrów deposit), which is to be built after 2025 and, therefore, they are not included in the estimated capital expenditures in the current Strategy (except initial outlays of approx. PLN 70 million).

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

In 2018, the investment expenditure amounted to PLN 455,298,000. The Company's plan for the investment expenditure for 2019 assumes the amount of PLN 566,186,000.

## Dividend policy

In the future, the Management Board of LW Bogdanka S.A. intends to request the General Shareholders Meeting for approval of dividend 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 dividend 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 2018 dividend was not paid, and in accordance with resolution No. 25 of the Annual General Shareholders Meeting dated 20 July 2018, net profit was allocated to the Company's reserve capital.

## 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.

The internal control system is determined in particular by:

- the Company's organisational rules;
- accounting policy;
- document workflow instruction;
- internal regulations and procedures;
- the Rules of 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 within the Supervisory Board.



LW Bogdanka S.A. maintains accounting books and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as with the related interpretations announced in the form of regulations of the European Commission. 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 books 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 books are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Beginning with the second half of 2018 this procedure is handled with the use of Electronic Document Circulation system. 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 books 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 2018, 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 2018 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 contributed to enhancing the internal control system and its constant development.

## **6. Assessment of the risk management system**

Risk management process means:

- ensure security of the Company's operation, and
- ensure effectiveness of decisions focused on the maximisation of profit at an acceptable level of risk.

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

- Corporate Risk Management Policy applicable at the Enea Group,
- Corporate Risk Management Methodology at the ENEA Group - ERM procedures,
- The LW Bogdanka Group Risk Register,
- The LW Bogdanka Group Risk Map,
- List of key and material risks of the LW Bogdanka Group,
- Programs of mitigating measures for key risk (if any) at the Company.

As part of the integration process within the Enea Group, LW Bogdanka S.A., in line with the relevant Group regulations, i.e. the applicable "Secondary Documents", has implemented since January 2018 the ERM system to be applied in the Group companies.

In accordance with the rules applicable within the Group, on 1 January 2018, LWB S.A. created the LWB S.A. Risk Register, in which, as at 31 December 2018, 205 risks were recorded – risks applicable to all the business operations pursued by the enterprise, including 52 major and 153 minor risks. No key risks were included.

The Company presents information and reports on the results of ERM implementation and operation to the Supervisory Board and the Audit Committee.

In subsequent periods, the system will be further adapted to the needs of the Group 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:

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

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

1. Business environment – the risk management system of the Company covers all areas of the business.
2. Goals and tasks – the system is aimed at identifying potential risks and opportunities for the enterprise.
3. Risk identification – risks are identified by Risk Owners (persons holding managerial positions in the organisation).

4. Risk analysis – risks are evaluated in accordance with predetermined scales of probability and potential impact of risk materialisation in three areas.
5. Risk estimation – risks that received a total score in excess of a certain value are considered key risks – significant for the Company's business.
6. Risk handling – for the key risks, actions/plans aimed at minimising them and mitigating the possible effects of their occurrence are established and accepted by the Management Board.

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

According to the Supervisory Board the Company properly manages, using the currently applicable 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 2018 the Company conducted sponsorship operations based on the documents applicable at the Company:

- 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 first half of 2018).
- Sponsorship Strategy for LW Bogdanka S.A. – 1 July 2018-31 December 2021 along with a review of the budget for 1 January 2018-30 June 2018 (with respect to the second half of 2018).

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 strategy.

The major beneficiary of the Company's sponsorship budget is Górnik Łęczna S.A., an entity that manages professional football teams and, along with the Foundation established in 2017, runs the Sports Academy of Górnik Łęczna and a Sports Championship School (at a high school level).

The first team in the 2017/2018 season competed in the 1st League, i.e. Polish top league, but after the 2018 spring round the Łęczna team fell to the 2nd League. The situation was related to, among other things, personnel changes (change in the team of players and change in training staff). Górnik Łęczna S.A., at the period, played league matches, in the described rounds, with its own young footballers.

Due to social expectations (including the representatives of the local community), the Strategic Sponsor, i.e. Lubelski Węgiel Bogdanka S.A. maintained in 2018 the existing rules of cooperation and financing of the sponsorship agreement with Górnik Łęczna S.A. 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. In order to intensify its activities, the Foundation of the Sports Academy of Górnik Łęczna opened in 2018 the Sports Championship School, which - having the high school status - runs educational activities with a particular emphasis on sport-related interests of students. It is the first institution of this kind in the Lublin region.

Another beneficiary of the Company's sponsorship budget was in 2018 the GKS Górnik Łęczna Association running the women's football section whose team won the title of Champion of Poland

in the 2017/2018 season. It also owns and manages sports facilities in Łęczna, where the men's football players practice and play matches.

In addition to the two entities referred to above, the Company sponsored also other sports exercised in the Lublin region, namely:

- MGKS Gwarek Łęczna, which is a boxing club representing boxers (including the citizens of Łęczna and surrounding locations) who have a good success rate in boxing tournaments on both national and international level.
- cinder-track racing run by SpeedCar Motor Lublin,
- Szymon Ładniak – a young and talented rally driver on whom the lovers of this discipline pin their hopes.

Additionally, the Company supported the preparations of Polish climbers to a winter attempt on K2 (Polish Mountaineering Association), and in particular including the first expedition to Manaslu under the leadership of Piotr Tomala, a Lublin-based Himalayan mountaineer.

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 2018 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.

In the second half of 2018, LW Bogdanka also got involved in supporting the PreCOP initiative accompanying the 24th United Nations Climate Change Conference COP24 Katowice.

When decisions were made on whether to sponsor a given event, the Company considered the main recipients / participants 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 2018 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 2018 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 on-going 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.

The correct execution of the sponsorship strategy was supervised in 2018 by the Head of Management Office along with the reporting Marketing and Public Relations Departments, with the cooperation with the CSR Section, and all decisions regarding the Company's involvement in sponsorship projects were taken by the Company's Management Board.

The Supervisory Board is of the opinion that the Company's sponsorship policy pursued in 2018 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 2018, 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 - <https://www.gpw.pl/dobre-praktyki>. 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 2018 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. 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 29 March 2018 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, 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. and of the LW Bogdanka Group for 2018.

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 LW Bogdanka S.A. in 2018 and of the LW Bogdanka Group in 2018, containing the statement on non-financial information, the separate financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2018, the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2018, and the motion of the Management Board regarding distribution of profit for the financial year 2018**

Pursuant to the provisions of Article 382.3 of the Commercial Companies Code and 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 LW Bogdanka S.A. and of the LW Bogdanka Group for 2018, containing the statement on non-financial information.
2. Separate Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2018, including:
  - statement of financial position (balance sheet) prepared as of 31 December 2018, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 3,893,715,000;
  - income statement for the period from 1 January 2018 to 31 December 2018, showing net profit in the amount of PLN 51,597,000;
  - statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a total comprehensive income in the amount of PLN 46,362,000;
  - statement of changes in equity for the period from 1 January 2018 to 31 December 2018, showing an increase in the equity by PLN 46,362,000;
  - statement of cash flows for the period from 1 January 2018 to 31 December 2018, showing a net decrease in cash and its equivalents by PLN 262,305,000;
  - notes, detailing for the adopted accounting policy, as well as additional information.
3. Consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2018, including:
  - consolidated statement of financial position (balance sheet) prepared as of 31 December 2018, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 3,933,351,000;
  - consolidated income statement for the period from 1 January 2018 to 31 December 2018, showing net profit in the amount of PLN 53,796,000;
  - consolidated statement of comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a total comprehensive income in the amount of PLN 48,589,000;
  - consolidated statement of changes in equity for the period from 1 January 2018 to 31 December 2018, showing an increase in the equity by PLN 48,589,000;

- consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018, showing a net decrease in cash and its equivalents by PLN 264,135,000;
- 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 2018 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2018 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 2018 financial year, as well of the Company's financial and economic situation as at 31 December 2018. Further, the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. and of the Lubelski Węgiel Bogdanka Group for 2018, containing the statement on non-financial information, provide 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 2018, according to which the net profit generated by the Company in 2018 in the amount of PLN **51,596,697.12** will be allocated as follows:

- the amount of PLN 25,510,192.50 will be allocated for a dividend for shareholders, i.e. PLN 0.75 per share;
- the remainder of PLN 26,086,504.62 will be allocated for the Company's reserve capital.

### **VIII. Relations of the Management Board with trade unions**

Four union organisations operate at the Company.

As at 31 December 2018, the size of the individual trade unions was as follows:

- "Solidarność" Independent Self-Governing Trade Union – 1,091 members
- Trade Union of Miners in Poland – 1,642 members
- "Kadra" Trade Union – 303 members
- "Przeróbka" Trade Union – 283 members.

At the end of 2018, the number of staff employed at the Company amounted to 4,750 persons. In total, 3,319 employees were members of trade union organisations, which constitutes 70% 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 2018, 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 2018 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 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 2018, a total gross remuneration paid to the Supervisory Board members for performing their duties in the Company amounted to PLN 477,724.3. 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 2018, the total costs mentioned above amounted to PLN 41,904.90.

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 2018.



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

Mirosław Kowalik	Chairman of the Supervisory Board	.....
Przemysław Krasadomski	Deputy Chairman of the Supervisory Board	.....
Szymon Jankowski	Secretary of the Supervisory Board	.....
Ewa Nowaczyk	Member of the Supervisory Board	.....
Kamil Patyra	Member of the Supervisory Board	.....
Mariusz Romańczuk	Member of the Supervisory Board	.....
Anna Spoz	Member of the Supervisory Board	.....
Michał Stopyra	Member of the Supervisory Board	.....

Warsaw, 15 May 2019