



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD
LUBELSKI WĘGIEL BOGDANKA S.A.
FOR THE FINANCIAL YEAR 2019**

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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. An Extraordinary General Shareholders Meeting was convened for 29 May 2020, and its agenda will include adopting a resolution on amending the Company's Articles of Association. Once changes are adopted, the member of the Supervisory Board previously appointed by the Minister of Energy will be appointed by the Minister of State Assets. The Supervisory Board operates on the basis of the following legislation:

- 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 2016".

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 2019.

Until 25 July 2019, the Supervisory Board operated in the following composition:

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

On 25 July 2019, the Extraordinary General Shareholders Meeting removed Mr Przemysław Krasadomski from the Supervisory Board of LWB S.A. and appointed Ms Izabela Antczak-Bogajczyk to the Supervisory Board of LWB S.A.

As at 31 December 2019 and as at the day this Report, the composition of the Supervisory Board was as follows:

1. Mirosław Kowalik - Chairman
2. Izabela Antczak-Bogajczyk - Deputy Chairwoman 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 2019 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 11 meetings. Resolutions were also adopted 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 65 resolutions.

Mr Przemysław Krasadomski did not participate in the meeting of the Supervisory Board on 3 July 2019; the Supervisory Board found his absence to be justified and adopted a relevant resolution in relation thereto. Other Supervisory Board meetings were attended by all members.

During the meetings held in 2019, the Supervisory Board worked on the following issues (without limitation):

- the Company's and the LWB Group's current situation as regards economic, financial and social issues;
- appointment of the Deputy Chairman of the Supervisory Board;
- changes in the composition of the Audit Committee;
- analysis of achievement of the Management Objectives for 2017 and 2018 by members of the Management Board of LW Bogdanka S.A., and determination of the amount of Variable Remuneration due to members of the Company's Management Board;
- approving the Company's Technical and Economic Plan for 2019;
- Management Board's information on costs incurred by the Company and its subsidiaries in 2019 related to operation of these companies and to management of LW Bogdanka Group companies;
- information on costs incurred by the Company as a result of management services agreements concluded with the members of the Company's Management Board;
- Management Board's information on the status of the technical audit and the schedule of actions, which are aimed at improving the efficiency and effectiveness of mining, in particular by changing the proportions of mining done by plough systems to the advantage of shearer loaders, and better planning;
- Management Board's information on contracts signed by LW Bogdanka S.A. with Korporacja Gwarecka S.A.;
- Management Board's information on analysis of the changes to the Collective Labour Agreement and the financial consequences (savings) of their implementation;
- Management Board's information on the cost-effectiveness of using third-party services for mine maintenance, and on analysis of alternative scenarios of organising work on public holidays;
- independent auditor's report on the audit of the Company's and the Group's financial statements for 2018 prepared by an auditor;
- the Company's and the Group's financial statements for 2018;
- Director's Reports on Operations of the Company and of the Group for 2018;
- procedure of qualifying new members of the Management Board;
- defining Management Objectives (KPIs) for 2019 for members of the Company's Management Board;
- information on the performance of the Sponsorship Strategy for Lubelski Węgiel Bogdanka S.A. and donations made by the Company and its subsidiaries in 2019;
- information on changes to the provisions of internal regulations which govern the recruitment and hiring process;
- distribution of net profit for 2018;

- report of the Supervisory Board for 2018;
- matters to be covered by resolutions of the Annual General Shareholders Meeting;
- 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 2018;
- appointment of members of the Management Board of LWB S.A. for the next term of office;
- information on business consultancy services and legal services in 2018 and first half of 2019;
- 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;
- findings of an inspection of the Company's rehiring process for workers who availed of the Voluntary Redundancy Scheme;
- findings of audits performed by the Audit and Internal Control Department in 2018 and of audit plans for 2019;
- consent for the Company to sign legal services agreements;
- information on the manner of fulfilment of cybersecurity requirements by the Company;
- information on how Data Protection Officer fits into the Company's structure and how GDPR requirements are being met at the Company;
- information on the rationale and the cost of obtaining by the Company of Level 3 Facility Security Clearance for "secret" information;
- approval/non-approval of performance of selected Management Objectives (KPIs) for 2019 by members of the Management Board;
- consent to conclude a donation agreement with the "Solidary Miners" Foundation;
- rules of operation of the Audit and Internal Control Department and of its functional independence;
- information on the steps taken by the Company to ensure airspace safety;
- consent to conclude an annex to the Sponsorship Agreement with Górnik Łęczna S.A.;
- consent to conclude annexes to the Long-Term Agreements with ENEA Wytwarzanie Sp. z o.o. and Enea Elektrownia Połaniec S.A.;
- findings of the external technical audit performed by AGH University of Science and Technology.

Resolutions adopted by the Supervisory Board in 2019:

Minutes No.	Date of the meeting	Resolution No.	Subject matter of the resolution
21/X/2019	29 January 2019	118/X/2019	performance of Management Objectives by the President of the Management Board, Mr Krzysztof Szlaga, and determination of the amount of his Variable Remuneration, for the financial year 2017
		119/X/2019	performance of Management Objectives by the Vice-President of the Management Board, Mr Sławomir Karlikowski, and determination of the amount of his Variable Remuneration, for the financial year 2017
		120/X/2019	performance of Management Objectives by the Vice-President of the Management Board, Mr Marcin Kapkowski, and determination of the amount of his Variable Remuneration, for the financial year 2017
		121/X/2019	performance of Management Objectives by the Vice-President of the Management Board, Mr Adam Partyka, and determination of the amount of his Variable Remuneration, for the financial year 2017

		122/X/2019	performance of Management Objectives by the Vice-President of the Management Board, Mr Stanisław Misterek, and determination of the amount of his Variable Remuneration, for the financial year 2017
22/X/2019	1 March 2019	123/X/2019	approval of the Technical and Business Plan of Lubelski Węgiel Bogdanka S.A. for 2019 as preliminary budget
23/X/2019	20 March 2019	124/X/2019	approval of the Separate Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2018
		125/X/2019	approval of the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2018
		126/X/2019	assessment of the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. and the Lubelski Węgiel Bogdanka Group for the financial year 2018
24/X/2019	17 April 2019	127/X/2019	initiation of the selection procedure for positions in the Management Board of the Company as well as adopting detailed rules and the mode of the selection procedure
		128/X/2019	appointment of a committee for the formal review of applications filed in the selection procedure to positions in the Management Board of the Company
		129/X/2019	defining the Management Objectives (KPIs) for 2019 for the President of the Management Board, Mr Artur Wasil
		130/X/2019	defining the Management Objectives (KPIs) for 2019 for the Vice-President of the Management Board responsible for Employee and Social Affairs, Mr Adam Partyka
		131/X/2019	defining the Management Objectives (KPIs) for 2019 for the Vice-President of the Management Board responsible for Economic and Financial Affairs, Mr Artur Wasilewski
		132/X/2019	defining the Management Objectives (KPIs) for 2019 for the Vice-President of the Management Board responsible for Development, Mr Dariusz Dumkiewicz
25/X/2019	9 May 2019	133/X/2019	approval of a report prepared by the committee appointed for the formal review of applications filed in the selection procedure to the position of President of the Management Board, Vice-President of the Management Board responsible for Economic and Financial Affairs, Vice-President of the Management Board responsible for Employee and Social Affairs, Vice-President of the Management Board responsible for Development, and Vice-President of the Management Board responsible for Procurement and Investments at Lubelski Węgiel Bogdanka S.A.
		134/X/2019	admittance of candidates for the position of President of the Management Board, Vice-President of the Management Board responsible for Economic and Financial Affairs, Vice-President of the Management Board responsible for Employee and Social Affairs, Vice-President of the Management Board responsible for Development, and Vice-President of the Management Board responsible for Procurement and Investments whose applications were filed in due time and meet the requirements specified in the announcement on the selection procedure to next phase of the selection procedure
		135/X/2019	approval of the set of interview questions for candidates for the

			position of President of the Management Board of Lubelski Węgiel Bogdanka S.A.
		136/X/2019	approval of the set of interview questions for candidates for the position of Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
		137/X/2019	approval of the set of interview questions for candidates for the position of Vice-President of the Management Board responsible for Employee and Social Affairs of Lubelski Węgiel Bogdanka S.A.
		138/X/2019	approval of the set of interview questions for candidates for the position of Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
26/X/2019	15 May 2019	139/X/2019	assessment of the Management Board's motion regarding the distribution of net profit for 2018
		140/X/2019	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Artur Wasil, for the performance of his duties in the financial year 2018
		141/X/2019	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 2018
		142/X/2019	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Artur Wasilewski, for the performance of his duties in the financial year 2018
		143/X/2019	motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board, Mr Dariusz Dumkiewicz, for the performance of his duties in the financial year 2018
		144/X/2019	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 2018
		145/X/2019	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 2018
		146/X/2019	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 2018
		147/X/2019	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 2018
		148/X/2019	approval of the Report of the Supervisory Board for the financial year 2018
		149/X/2019	issuing an opinion on the Management Board's Report on hospitality expenditure, marketing services expenditure,

		expenditure on public relations and social communication services as well as management consulting services for 2018
	150/X/2019	defining the content of an annex to the Management Services Agreement and authorising a member of the Supervisory Board to conclude, on behalf of the Company, such annexes to Management Services Agreements with members of the Management Board
	151/X/2019	approval of the set of interview questions for candidates for the position of Vice-President of the Management Board responsible for Procurement and Investments of Lubelski Węgiel Bogdanka S.A.
	152/X/2019	determination of a candidate to the position of President of the Management Board of Lubelski Węgiel Bogdanka S.A.
	153/X/2019	determination of a candidate to the position of Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
	154/X/2019	determination of a candidate to the position of Vice-President of the Management Board responsible for Employee and Social Affairs of Lubelski Węgiel Bogdanka S.A.
	155/X/2019	determination of a candidate to the position of Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
	156/X/2019	selection of the best candidate to the position of President of the Management Board of Lubelski Węgiel Bogdanka S.A.
	157/X/2019	selection of the best candidate to the position of Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A.
	158/X/2019	selection of the best candidate to the position of Vice-President of the Management Board responsible for Employee and Social Affairs of Lubelski Węgiel Bogdanka S.A.
	159/X/2019	selection of the best candidate to the position of Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A.
	160/X/2019	ending of the selection procedure for the position of Vice-President of the Management Board responsible for Procurement and Investments
	161/X/2019	appointing the President of the Management Board of Lubelski Węgiel Bogdanka S.A. for a new term of office
	162/X/2019	appointing the Vice-President of the Management Board responsible for Economic and Financial Affairs of Lubelski Węgiel Bogdanka S.A. for a new term of office
	163/X/2019	appointing the Vice-President of the Management Board responsible for Employee and Social Affairs of Lubelski Węgiel Bogdanka S.A. for a new term of office
	164/X/2019	appointing the Vice-President of the Management Board responsible for Development of Lubelski Węgiel Bogdanka S.A. for a new term of office
	165/X/2019	defining the content of the Management Services Agreement and authorising a member of the Supervisory Board to conclude,

			on behalf of the Company, such Management Services Agreements with members of the Management Board appointed for a new term of office
27/X/2019	3 July 2019	166/X/2019	justifying the absence of the Supervisory Board member
		167/X/2019	approval of an Adjustment to the Technical and Business Plan of Lubelski Węgiel Bogdanka S.A. for 2019
28/X/2019	28 August 2019	168/X/2019	appointment of the Deputy Chairman of the Supervisory Board
		169/X/2019	appointing a member of the Audit Committee
		170/X/2019	performance of Management Objectives and determination of the amount of Variable Remuneration due to President of the Management Board, Mr Artur Wasil, for the financial year 2018
		171/X/2019	performance of Management Objectives and determination of the amount of Variable Remuneration due to Vice-President of the Management Board, Mr Adam Partyka, for the financial year 2018
		172/X/2019	performance of Management Objectives and determination of the amount of Variable Remuneration due to Vice-President of the Management Board, Mr Marcin Kapkowski, for the financial year 2018
		173/X/2019	performance of Management Objectives and determination of the amount of Variable Remuneration due to Vice-President of the Management Board, Mr Sławomir Karlikowski, for the financial year 2018
		174/X/2019	performance of Management Objectives and determination of the amount of Variable Remuneration due to Vice-President of the Management Board, Mr Stanisław Misterek, for the financial year 2018
		175/X/2019	defining the content of an annex to the Management Services Agreement and authorising a member of the Supervisory Board to conclude, on behalf of the Company, such annexes to Management Services Agreements with members of the Management Board
		176/X/2019	repealing Resolution No. 175/X/2019, and defining the content of an annex to the Management Services Agreement and authorising a member of the Supervisory Board to conclude, on behalf of the Company, such annexes to Management Services Agreements with the members of the Management Board
		by corresp.	24 September 2019
29/X/2019	11 September 2019	no resolutions adopted	
by corresp.	31 October 2019	178/X/2019	non-approval of the presented 7-days-a-week mine operation model, including assessment of its feasibility and presentation of expected benefits
by corresp.	31 October 2019	179/X/2019	approval of the presented incentive pay system for the Company's employees
30/X/2019	18 November	180/X/2019	granting consent to conclude a donation agreement with the

	2019		“Solidary Miners” Foundation with its registered office in Bogdanka
31/X/2019	19 December 2019	181/X/2019	consent for the Company to sign Annex 2 to Sponsorship Agreement No. 709/P/DO/2018 of 9 July 2018 with Górnik Łęczna S.A.
by corresp.	30 December 2019	182/X/2019	consent for the conclusion of an annex to the Long-Term Agreement for the supply of thermal coal and the Annual Agreement for the supply of thermal coal in 2020 with ENEA Wytwarzanie sp. z o.o.
by corresp.	30 December 2019	183/X/2019	consent for the conclusion of an annex to the Long-Term Agreement for the supply of thermal coal with ENEA Elektrownia Połaniec S.A.

III. Information on the activities of the Supervisory Board Committees

In 2019, the composition of the Audit Committee was as follows:

From 1 January 2019

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 relation to changes in the composition of the Supervisory Board made on 25 July 2019 by the Extraordinary General Shareholders Meeting, the Supervisory Board, at its meeting on 28 August 2019, complemented the composition of the Audit Committee, which as at 31 December 2019 and as at the date of this Report was as follows:

1. Anna Spoz – Chairperson of the Audit Committee,
2. Izabela Antczak-Bogajczyk – Member of the Audit Committee,
3. Michał Stopyra – Member of the Audit Committee.

In 2019, 11 meetings of the Audit Committee were held on the following dates:

- 29 January 2019,
- 14 March 2019,
- 20 March 2019,
- 17 April 2019
- 7 June 2019,
- 3 July 2019,
- 1 August 2019,
- 28 August 2019,
- 11 October 2019,
- 18 November 2019,
- 19 December 2019.

In 2019, the Audit Committee adopted 8 resolutions (including 2 resolutions via e-mail voting in accordance with Article 18.2 of the Articles of Association, and Articles 8.10 and 10.8 of the Rules and Regulations of the Supervisory Board), which concerned the following:

- Approval of the Audit Plan for 2019,
- Issuing an opinion on the Separate Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2018,

- Issuing an opinion on the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2018,
- Issuing an opinion on the Directors' Report on Operations of LW Bogdanka S.A. and the LW Bogdanka Group for 2018
- Approval of the Report on Performance of the Audit and Internal Control Plan for 2018,
- Granting consent to performing the calculation of an excise tax indicator for 2018 by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.),
- Granting consent to performing a service involving verification of the calculation of the Company's electricity consumption ratio by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.),
- Approval of the Audit Plan for 2020.

The Audit Committee has read the information provided by the Audit and Internal Control Department and the Management Board, in particular on matters concerning:

- reports on the audits and controls submitted by the Audit and Internal Control Department, performed by it in Q3 and Q4 2018 and Q1 and Q2 2019 (and implementation of recommendations),
- risk management – update of material risks as at 31 December 2018, and then as at the end of Q1 and Q2 2019,
- report for the Audit Committee of Lubelski Węgiel Bogdanka S.A. on the audit of financial statements for the financial year 2018 prepared by an auditor of PricewaterhouseCoopers Polska sp. z o.o. Audyt sp.k.,
- the process of gradual rotation of generations of the Company's employees, and employee development as regards the qualifications of mine managers and supervisors,
- analysis of the Voluntary Redundancy Scheme introduced in the Company, and of findings of an inspection of the Company's rehiring process for workers who availed of the Voluntary Redundancy Scheme,
- releasing employees from the requirement to report for duty while retaining the right to remuneration during periods other than the notice period,
- improving the procurement process at LWB.

For the purpose of monitoring the financial reporting process, each time before the periodic reports were published (23 March 2019, 29 May 2019, 30 August 2019, 21 November 2019), the Audit Committee read and reviewed the relevant financial statements and Directors' Reports on Operations. In 2019, the Audit Committee held 5 meetings (29 January 2019, 14 March 2019, 20 March 2019, 7 June 2019, 1 August 2019) with the audit firm PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.).

At the Audit Committee meeting on 29 January 2019, PricewaterhouseCoopers sp. z o.o. Audyt sp.k. discussed the strategy and plan for auditing 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, the identified key business risks, and the conclusions arrived at as a result of meetings between the auditor and the Management Board. Also, implementation of the new IFRS 9, 15 and 16 at the Company and the procedure for application of these standards were discussed.

On 14 March 2019, the audit firm PricewaterhouseCoopers sp. z o.o. Audyt sp.k. presented a summary of its audit of the separate and the consolidated financial statements for 2018 and established a schedule of further work to complete the audit. On 20 March 2019, the Audit Committee accepted the audit report for the Supervisory Board of Lubelski Węgiel Bogdanka S.A. and issued an opinion on 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.

At a meeting on 7 June 2019 held by means of remote communication (conference call), the audit firm PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. presented a schedule of work related to the interim review of the condensed separate financial statements of Lubelski Węgiel Bogdanka S.A. and the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the six months ended 30 June 2019.

On 1 August 2019, PricewaterhouseCoopers Polska sp. z o.o. Audyt sp.k. presented the Audit Committee with preliminary results of a review of the consolidated consolidation package for the six months ended 30 June 2019, and the final results were presented to the Supervisory Board and the Audit Committee at a meeting on 28 August 2019.

For the purpose of monitoring the effectiveness of the audit and internal control systems, the Audit Committee met with the Head of the Audit and Internal Control Department with a view to learning about the findings of audits and controls carried out for respective quarters, as well as the pace and scope of implementation of post-audit recommendations. Reports on the current assessment of risks in the Company and of risk management systems were presented at Audit Committee meetings by the Vice-President of the Management Board responsible for Development.

IV. Composition of the Management Board

Until 31 January 2019, the Management Board of the 9th term of office operated in the following composition:

- 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,
- Marcin Kapkowski – Vice-President of the Management Board, Procurement and Investments.

On 18 January 2019, Mr Marcin Kapkowski filed a resignation from his function as member of the Company's Management Board with effect from 31 January 2019.

On 9 May 2019, the Supervisory Board adopted resolutions on appointment of the Management Board of LW Bogdanka S.A. to the 10th term of office in the following composition:

- 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.

That was the composition of the Management Board as at 31 December 2019 and as at the day of this Report.

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

The rules of remuneration of members of the Management Board of LW Bogdanka S.A. which applied in 2019 were introduced under Resolutions of the Extraordinary General Shareholders Meeting of the Company dated 7 March 2017 and 17 October 2019 and of the Supervisory Board of the Company dated 30 July 2018, as amended. All members of the Management Board (the Managers) entered into Management Services Agreements with the Company, 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 compliance with the Non-Compete Agreement after the Manager ceases to hold their function, the Manager is entitled to compensation 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 LW Bogdanka 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 LW Bogdanka 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 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 previously used the services of PricewaterhouseCoopers Sp. z o.o. and PwC network 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 consultancy (2012); tax advisory in 2014-2017 regarding, for example, excise tax; and reviewing the correctness of Excise Ratio 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 2019 and the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2019 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. The financial statements subject to assessment were prepared on the basis of properly kept accounting books, in compliance with the provisions of Chapter 2 of the Act of 29 September 1994 on Accounting ("the Accounting Act", consolidated text in Journal of Laws [Dz.U.] of 2019, item 351, as amended), and present fairly and clearly all information material for evaluating the Company's profitability and profit (loss) on its operations in 2019, as well as the Company's financial and economic situation as at 31 December 2019. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for 2019 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, 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 2019, in addition to auditing the separate financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2019, and the consolidated financial statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January to 31 December 2019 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 2018,
- works related to checking whether the electricity consumption ratio for 2017-2019 was calculated correctly.

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

1. Financial results

During 2019, LW Bogdanka S.A.'s revenue amounted to PLN 2,154,509,000 and was higher by PLN 399,613,000 (22.8%) compared to the revenue figure for 2018.

The main source of the Company's revenue was the production and sale of thermal coal. Between 1 January 2019 and 31 December 2019 this activity generated 98.2% of the Company's revenue (97.7% in the same period of the previous year).

2. Profitability ratios

The Company's profitability ratios stood at higher levels in 2019 compared to 2018. Gross sales margin of LW Bogdanka S.A. increased from 1.4% (2018) to 16.4% (2019).

EBIT margin in 2019 was 17.2%, i.e. it was higher by 13.9 p.p. than in the previous year.

For 2019, Company's EBITDA margin amounted to 34.9%, i.e. more by 8.9 p.p. compared to the same period of 2018.

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 2019, the production of commercial coal was 9,451,000 tonnes, i.e. it was more by 4.9% than in the same period of 2018.

In the period from 1 January 2019 to 31 December 2019, the sale of commercial coal was 9,359,000 tonnes, i.e. more by 4.7% than in the same period of 2018.

4. Strategy

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

Strategy Monitoring – 2019

The Company, as assumed in the Strategy of LW Bogdanka S.A. Mining Area of the Enea Group, pursues the flexible development scenario. The annual average forecast coal production volume in 2017-2025 is 9.2 million tonnes. In 2019, Bogdanka's production of commercial coal amounted to 9.5 million tonnes.

The indicators of LW Bogdanka S.A. as at 31 December 2019 were as follows:

- the unit mining cash cost dropped by 0.23% compared to the 2018 level,
- the return on equity amounted to 10% (in comparison to 1.8% at the end of 2018),
- the return on assets amounted to 7.6% (in comparison to 1.3% at the end of 2018),
- EBITDA amounted to PLN 752 million (in comparison to PLN 455 million at the end of 2018).

Development of resource base and longer life of the mine

Efforts to double the exploitable resources on the basis of the Ostrów deposit and to extend the mine's life to about 50 years

The Strategy makes prospective plans for the mining areas Puchaczów V (Bogdanka field), Stręczyn (K-3 field), Ludwin (Ostrów field), and Cyców (K-6 and K-7 field).

On 20 December 2019, LW Bogdanka S.A. obtained a mining licence for the Cyców area.

As at 31 December 2019 the exploitable resources were as follows:

- 185.7 million Mg of exploitable resources in the Puchaczów V Mining Area.
- 22.2 million Mg of exploitable resources in the Stręczyn Mining Area.
- 171.7 million Mg of exploitable resources in the Ludwin Mining Area.
- 65.6 million Mg of exploitable resources in the Cyców Mining Area.

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.

Currently, initiatives have been updated in relation to 2030 (with perspective until 2040) and include 14 strategic initiatives:

No.	Strategic initiative
1.	To improve the quality of raw coal by reducing the content of waste rock in the output.
2.	To build a high-performance power generation unit, taking into account the specific nature of LWB fuel in order to increase production and ensure its sales, or to build a combined heat and power plant using a fluidized bed boiler for waste utilization and energy and heat production for its own needs.
3.	To develop a concept study and a feasibility study of a local master plan for building, in mining areas and in their immediate vicinity, of facilities for the processing of coal and associated products, including the possibility of collecting finished products.
4.	To develop process-based technical and management standards related to the operation and extension of the mine and associated coal processing facilities to provide services with the use of entrusted assets, taking into account foreign expansion.
5.	To prepare a concept study and a preliminary feasibility study of the possibility of offering standardized poly-generation systems together with guaranteed fuel supplies and collection of combustion by-products.
6.	To acquire mining and electricity generating assets abroad to use the potential of Polish mining human resources and increase the export potential, resulting in increased LWB production.
7.	To reduce production costs by acquiring new licenses, building new fields, and introducing mining based on innovative technologies under the Mine of Intelligent Solutions scheme, using tools implemented as part of the IT strategy.
8.	To increase the level of work safety, and to create an accident-free work environment by raising employees' awareness and supporting attitudes which foster a culture of work safety – with the help of bottom-up initiatives and an incentive system.
9.	To increase the flexibility of extraction through the use of innovative solutions for underground transport of output.
10.	To develop mining technologies to increase production efficiency.
11.	To develop exploitable resources – Ostrów field.
12.	Technical solutions for monitoring and improving work safety.
13.	Social responsibility and effective and transparent management in conditions of sustainable development.
14.	Research, development and innovation as a tool to support an increase in the efficiency of the Mining Area.

On 8 October 2019, LW Bogdanka S.A. and ENEA S.A. signed a letter of intent regarding construction of photovoltaic farms. As part of the cooperation, installations capable of producing approximately 30,000 MWh of electric energy annually will be set up in the next few years on a total area of around 55 ha. All of the power produced will be directed to Bogdanka to provide energy to the mine and its production processes.

Within the abovementioned Area, the project “Philosophy of building a photovoltaic farm at LW Bogdanka” was launched, whose goal is internal analysis of implementation feasibility. Requests for Proposal have now been sent in order to obtain an external study from an independent company in the following areas: (i) audit of the feasibility of implementing the project of building a photovoltaic farm at LW Bogdanka S.A. in accordance with the Company’s internal concept plans and potential market solutions in the abovementioned respect, (ii) scenario-based concept of building a photovoltaic farm at LW Bogdanka S.A., and (iii) technical materials for the recommended areas, i.e. technical analysis and proposed technical and technological solution.

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. The Company intensifies its involvement in the social development of the region through the implementation of cross-sectoral programs and initiatives such as Socially Involved Bogdanka.

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 2019, the investment expenditure amounted to PLN 399,963,000. The Company’s plan for the investment expenditure for 2020 assumes the amount of PLN 640,622,000.

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 2019, LW Bogdanka S.A. paid out dividend. The shareholders of the Company, during an Annual General Shareholders Meeting which was held on 18 June 2019 adopted resolution on distribution

of profit for 2018, under which the net profit of the Company amounting to PLN 51,597,000 was allocated as follows:

- the amount of PLN 25,510,000 – to dividend, i.e. PLN 0.75 per share,
- the remaining amount, i.e. PLN 26,087,000 – to the Company's reserve capital.

5. Assessment of the internal control system

The internal control system at LW Bogdanka S.A. is intended to ensure effective and efficient operation of the organisation, reliable financial reporting and LWB S.A.'s compliance with the law, internal rules and regulations, and market standards.

The internal control system at LWB supports business processes and shapes and defines the principles of cooperation, information flow and monitoring of activities within the organisation.

The internal control system is defined in particular by:

- the Company's organisational rules;
- accounting policy;
- document workflow instruction;
- internal regulations and procedures;
- Rules of Audit and Internal Control.
- Policy for Safety of Information in the IT Systems;
- LWB Protection Plan.

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. 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 conditions which guarantee objectivity and independence. It is directly supervised by the President of the Management Board, and is independent of operational 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 2019, the Company's Management Board has taken appropriate actions to remove any discovered irregularities, implemented remedial actions to eliminate ineffective control mechanisms and minimise potential risks to the processes that were covered by the audit, and enforced the necessary disciplinary measures.

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 2019, 229 risks were recorded in all areas of business operations pursued by the enterprise, including 1 key risk, 55 major risks, and 173 minor risks.

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.

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. Assessment of the compliance system

The Compliance Policy Department of Lubelski Węgiel Bogdanka S.A. manages the risk of non-compliance with laws, internal regulations and ethical standards. At the Company, due to its extensive organisational structure, a so-called 'distributed compliance model' has been introduced, according to which employees of each organisational unit are responsible for behaving lawfully and observing ethical standards.

The mission of the Compliance Policy Department is to constantly promote organisational culture in the Company, which will reduce possible legal and reputational risks to a minimum.

Key documents used to implement the abovementioned tasks include:

- Code of Ethics of Lubelski Węgiel Bogdanka S.A.
- Guidelines for Filing and Handling Complaints Related to Noncompliance with the Rules of the Company's Code of Ethics
- Fraud Prevention and Fraud Risk Management Policy at LW Bogdanka S.A.,
- Organisational Rules of Procedure.

The compliance system covers three main areas:

- acting in compliance with the law,
- acting in compliance with internal regulations,
- observing ethical standards and values.

Compliance with the law is ensured in the Company by making third-party legal advice available to employees performing their duties. The Company provides legal assistance via lawyers specialising in matters related to the current operations of the Company, such as tendering, labour law and social security, and other strategic areas of the Company's operations. The Company's employees, in order to act in accordance with the law, are obliged to consult all legal matters with lawyers, who, importantly, remain at their disposal during legal clinics on Company premises.

The Compliance Policy Department coordinates and oversees the process of providing legal services by external law firms.

Compliance with the Company's internal regulations is ensured via an electronic internal BPM document database, which can be accessed by all employees of the Company. The system is managed by the Compliance Policy Department, which is obliged to immediately enter documents into the system, update their status, handle submitted requests for changes to documents, and coordinate the review of current documents. The Compliance Policy Department also maintains a register of documents made available in the BPM system. Electronic access to the Company's internal documents allows employees to read them; employees are notified as soon as a new internal regulation is introduced.

Compliance with the ethical values followed by the Company is particularly important for minimising the risk of compromising the Company's reputation and good name, as well as ensuring proper relations between the Company's employees based on mutual respect. In connection with the above, the Compliance Policy Department undertakes a number of actions aimed at consolidating and reminding employees about the ethical standards in force at the Company through employee training, posters, banners and messages from the Ethics Ombudsman.

In addition, the Compliance Policy Department, including the Ethics Ombudsman, conducts explanatory proceedings, examines complaints (incidents) related to violation of ethical values and standards, mainly regarding relations between the supervisor and the employee, difficult relations and communication between employees within a team, inappropriate behavior, disruptions to crew returns to the surface, use of obscenities, posting unverified information about the Company's internal affairs and executives in social media, disagreements between managers.

In 2019, 39 complaints were filed, the vast majority of which were resolved through meetings, disciplinary discussions and dialogue between the Ethics Ombudsman and the interested parties. The most sensitive cases were consulted with the Vice-President of the Management Board for Employee and Social Affairs. In three cases, a team was established within the Company to resolve the matter.

At the same time, the Company uses external support, which involves preparation of documents regulating the compliance system and updating existing procedures to adapt them to, among other things, the Best Practice of WSE Listed Companies and the standards recommended for the compliance management system in the field of anti-corruption and whistleblower protection in companies listed on markets organised by the Warsaw Stock Exchange.

In the opinion of the Supervisory Board of Lubelski Węgiel Bogdanka S.A., the Compliance Policy Department, as part of the introduced compliance system, correctly manages the risk of non-compliance with the law, internal regulations, and ethical standards.

8. Reasonableness of the current sponsorship policy

In 2019 the Company conducted sponsorship operations based on the document applicable at the Company: Sponsorship Strategy for LW Bogdanka S.A. – 1 July 2018 – 31 December 2021

The main strategic goal of activities in the area of sponsorship is to support the implementation of CSR strategy by strengthening the image of a cultural and sports patron, i.e. a socially responsible enterprise with a presence in valuable initiatives that are crucial for the local community.

The strategic goal is implemented by focusing activities on the Lublin region, in particular the Company's immediate geographical environment; strengthening the Company's reputation as an active patron of socially significant undertakings and initiatives; and building public support for the Company's business activities.

Projects are selected, reviewed, and accounted for in terms of their efficiency and usefulness. The Company undertakes activities in the form of sports sponsorship (projects with the highest

commercial potential) and social and cultural sponsorship (projects with the highest social potential). In 2019, the total amount spent on sponsorship was PLN 6,732,900, which was by PLN 112,100 lower than planned (PLN 6,845,000).

The sponsorship budget was used in 98%. In total, 55 projects were implemented throughout the year, including from the sports budget: 23 projects, and from the social and cultural budget: 32 projects.

All sponsorship projects pursued in 2019 translates into advertising, media attention, and building a positive image of the brand and the enterprise.

The sponsorship strategy of LW Bogdanka S.A. includes the following sub-areas:

Sports sponsorship – a tool for the Company's impact on local communities, i.e. getting support from broader social circles. The Company is aware that sports clubs and sport events are key for strengthening the sense of community, and that traditions related to particular events tighten social bonds. Furthermore the projects are selected in such a manner that the sports fans are also key stakeholders of the Company (mostly the employees and local community from the area of impact). In 2019 the Company completed the total of 23 projects in the field of sports sponsorship, including:

- a) Górnik Łęczna S.A., professional club which manages tournaments of men's football team in the 2nd League. This entity has historical relationships with the mine, the town and the powiat, and the team fans are, in majority, the employees of the LW Bogdanka Group. This club also runs the Sports Academy, teaching more than 500 children from Łęczna and the region of Łęczna, and a Sports Championship School (having the status of a secondary school – a secondary school with a football profile), the first school of this kind in the Lublin province.
- b) The GKS Górnik Łęczna Association is also an entity with historical ties to the Company. It runs the women's football section whose team won the title of Champion of Poland in the 2018/2019 season. The club also owns and manages sports facilities in Łęczna, where the professional club players practice and play matches.
- c) MGKS Gwarek Łęczna, which is an amateur boxing sports club for children and teenagers only, representing boxers who have a good success rate in boxing tournaments on both national and international level.
- d) Local motor sports projects, popular and well received on a regional scale, i.e. the youth speedway team Bogdanka Motor Lublin, and 16-years-old Szymon Ładniak, one of the most talented drivers of the young generation.

Social and cultural sponsorship – the Company' tool for impacting local communities in the region through support of opinion leaders as well as the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. In 2019, the Company completed 32 projects in the field of social and cultural sponsorship, cooperating with known and praised cultural institutions from the Lublin area, including: Cultures Meeting Centre, H. Ch. Andersen Theatre, Musical Theatre. Moreover, the Company got involved in the Lublin Festival of Science, a project popularising science among local communities.

The correct execution of the sponsorship strategy was supervised in 2019 by the Vice-President of Management Board responsible for Employee and Social Affairs, along with the reporting Marketing and Public Relations Department, and all decisions regarding the Company's involvement in sponsorship projects were taken by the Company's Management Board via adequate resolutions.

Payments to beneficiaries are monitored on an on-going basis through the following measures: any sponsorship money is 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.

Effectiveness of sponsorship activities

In 2019, the Company contracted PRESS-Service Monitoring Mediów Sp. z o.o. from Poznań to study the effectiveness of its sponsorship activities. 18 sponsorship projects were analysed.

The main findings of the resulting report were as follows:

1. The key sponsorship projects were implemented in a profitable manner.
2. The main beneficiary of funds from the Budget, Górnik Łęczna S.A. (2019 contract value: PLN 4,700,000), generated a ROI (which permits the assessment of effectiveness of sponsorship activities) of 1041%. The value of efficient image-building activities for the LW Bogdanka brand in relation to the Górnik project amounted to PLN 53,609,100. Górnik Łęczna enjoyed the most attention from the media. The logo of LW Bogdanka or the name of the Company appeared in 4355 publications (press materials, TV coverage) about Górnik Łęczna.
3. Only 2 projects did not prove to be profitable, i.e. MGKS Gwarek Łęczna (boxing) and the sports association SMS Maratończyk (runners). Due to the significant importance of these entities for the local community (including employees), the Company decided to conditionally continue these initiatives, while indicating the directions of expected project development. In the case of sponsorship for Gwarek Łęczna which achieved negative profitability (-46%), the Company took actions to ensure profitability in subsequent periods (e.g. the value of the contract for 2020 was reduced from PLN 330,000 to PLN 180,000). Similar actions will be taken in relation to SMS Maratończyk.

The Supervisory Board is of the opinion that the Company's sponsorship policy pursued in 2019 complies with the adopted guidelines, including the Sponsorship strategy documents and guarantees performance of the Company's sponsorship and CSR objectives.

9. 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 2019, LW Bogdanka S.A. complied with the new "Best Practice for WSE Listed Companies" (hereinafter: "Best Practice for WSE Listed Companies"), attached as an appendix to Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. 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>.

Due to the fact that the Prime Minister did not define any good practices in the field of corporate governance, as referred to in Article 7.3 of the Act on the Principles of State Property Management, in 2019 the Company did not use any practices other than those indicated in the Best Practice for WSE Listed Companies.

The Company applies most of the corporate governance principles. However, due to the fact that some of the rules may cause excessive financial strain on LW Bogdanka S.A. that would dominate the potential benefits arising from market needs, in 2019 the Company departed from the application of some of the corporate governance rules and one recommendation as specified below.

In 2019 the Company did not apply the following rules:

1. Part. 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. Part. 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 2019.

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 2016 and finds that the Company duly fulfils relevant disclosure requirements.

10. 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 2019 and of the LW Bogdanka Group in 2019, 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 2019, the consolidated financial statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January to 31 December 2019, and the motion of the Management Board regarding distribution of net profit for the financial year 2019

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 Lubelski Węgiel Bogdanka S.A. and of the Lubelski Węgiel Bogdanka Group for 2019, containing a 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 2019, including:
 - statement of financial position (balance sheet) prepared as of 31 December 2019, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 4,208,383,000;
 - income statement for the period from 1 January 2019 to 31 December 2019, showing net profit in the amount of PLN 306,184,000;
 - statement of comprehensive income for the period from 1 January 2019 to 31 December 2019 showing a total comprehensive income in the amount of PLN 301,391,000;
 - statement of movements in the equity for the period from 1 January 2019 to 31 December 2019, showing an increase in the equity by PLN 275,881,000;
 - statement of cash flows for the period from 1 January 2019 to 31 December 2019, showing a net increase in cash and its equivalents by PLN 212,377,000;
 - 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 2019, including:
 - consolidated statement of financial position (balance sheet) prepared as of 31 December 2019, showing a balance-sheet total under assets and equity and liabilities in the amount of PLN 4,252,464,000;
 - consolidated income statement for the period from 1 January 2019 to 31 December 2019, showing net profit in the amount of PLN 308,746,000;
 - consolidated statement of comprehensive income for the period from 1 January 2019 to 31 December 2019 showing a total comprehensive income in the amount of PLN 303,896,000;
 - consolidated statement of movements in the equity for the period from 1 January 2019 to 31 December 2019, showing an increase in the equity by PLN 278,386,000;
 - consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019, showing a net increase in cash and its equivalents by PLN 211,947,000;
 - 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 2019 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2019 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 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 2019 financial year, as well of the Company's financial and economic situation as at 31 December 2019. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for 2019, 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 2019, according to which the net profit generated by the Company in 2019 in the amount of PLN 306,183,753.52 will be in full allocated to 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 2019, the size of the individual trade unions was as follows:

- "Solidarność" Independent Self-Governing Trade Union – 1,015 members,
- Trade Union of Miners in Poland – 1,575 members,
- "Kadra" Trade Union – 321 members,
- "Przeróbka" Trade Union – 342 members.

At the end of 2019, the number of staff employed at the Company amounted to 4,916 persons. In total, 3,253 employees were members of trade union organisations, which constitutes 65.3% of the total head count at the Company. 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 monitored the Management Board's implementation of the Company's goals for 2019, analysing and assessing issues raised at meetings by the Company's Management Board.

The Supervisory Board has a positive opinion of its work with the Company's Management Board in 2019 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. Further, in relation to Resolution No. 4 of the Extraordinary General Shareholders Meeting of LW Bogdanka S.A. dated 17 October 2019, which amended Par. 1.1 in such a manner that it replaced the phrase: "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", with: "the calculation basis referred to in the Act on the rules for determining the remuneration of persons managing certain companies dated 9 June 2016, with due account taken of the applicable detailed provisions of law having impact on the amount thereof", the amount of remuneration for the members of the Supervisory Board changed. The change resulted from a change of the basis used for calculating the remuneration, as in the new situation the Act on specific solutions serving the implementation of the budget act for 2019, dated 9 November 2018, also applies and indicates, in Par. 22, that a base for calculating should be an average monthly remuneration in the enterprises sector without payments from profit in the fourth quarter of 2016, rather than - as previously - in the fourth quarter of the previous year.

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2019 amounted to PLN 497,500. 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 2019, the total costs mentioned above amounted to PLN 30,826.04.

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 2019.

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

1. Mirosław Kowalik	Chairman of the Supervisory Board
2. Izabela Antczak-Bogajczyk	Deputy Chairwoman 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, 25 May 2020