



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD
OF LUBELSKI WĘGIEL BOGDANKA S.A.
FOR THE FINANCIAL YEAR 2014**

Contents

I. Term of office and composition of the Supervisory Board.....	3
II. Meetings of the Supervisory Board, material issues and the number of resolutions adopted	3
III. Information on the activities of the Supervisory Board Committees	7
IV. Composition of the Management Board	10
V. Information on appointing a chartered auditor	11
VI. Assessment of the Company's situation, as well as the internal control and risk management systems	12
VII. Assessment of the internal control system	14
VIII. Assessment of the risk management system	15
IX. Report on results of the assessment of the Company's financial statements and the motion of the Management board regarding distribution of net profit for the financial year 2014.	18
X. Cooperation of the Supervisory Board and the Trade Unions	19
XI. Cooperation of the Supervisory Board and the Management Board of the Company	20

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 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 appointed and removed from office by the General Shareholders Meeting. The Supervisory Board operates on the basis of the following regulations:

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

While performing its activities, the Supervisory Board also complies with the rules of corporate governance stipulated in the "Code of Best Practice for WSE Listed Companies".

The Supervisory Board performs its tasks on the basis of special powers granted to it by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

In 2014 the Supervisory Board of the 8th term of office operated, appointed by the Annual General Shareholders Meeting on 27 April 2012. On 22 November 2013 the Extraordinary General Shareholders Meeting appointed Mr Michał Stopyra as a new member of the Supervisory Board of the 8th term of office. As at 31 December 2014 and as at the day of submitting the Report, the Supervisory Board of LW BOGDANKA S.A. was composed of:

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

In 2014 all members of the Supervisory Board fulfilled the independency criteria within the meaning of Article 34.5 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 2014 were convened by the Chairman. 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 9 meetings. Resolutions were also adopted by correspondence. During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. adopted in total 43 resolutions.

In 2014, the meetings took place in the presence of all members of the Supervisory Board.

During the meetings held in 2014, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues:

- the Company's current situation as regards economic, financial and social issues,
- status of the investment in the Stefanów Field, as well as expansion of the Mechanical Coal Production Plant,
- work connected with obtaining mining licences for deposits K-3 and K-6-7, as well as prospecting licences for "Ostrów" and "Orzechów" areas,
- coal sale strategies until 2018,
- information with respect to a cartel on the market of chemical products for mining industry, identified by the Office of Competition and Consumer Protection
- the Company's Technical and Economic Plan 2014, its execution and works on the PTE project for 2015,
- Audit Plan 2014,
- consent to draw a credit facility and to create a security interest with respect to liability towards a bank,
- evaluation of MBO objectives for the Management Board for 2013, determining MBO objectives for 2014, forecast of the implementation of MBO objectives in 2014,
- policy governing remuneration to the members of the Management Board,
- principles of operation of the Supervisory Board committees,
- determining a list of persons authorised to participate in the Management Options Scheme,
- strategy in human resources management,
- strategy in investors relations,
- audit opinions and reports on the Company's financial statements for 2013 prepared by the auditor,
- Company's financial statements for 2013,
- Director's report on operations of the Company and the Group for 2013,
- report of the Supervisory Board for 2013,
- distribution of net profit for 2013,
- matters to be covered by resolutions of the Annual General Shareholders Meeting,
- assessment of meeting the conditions entitling to perform Options for 2013,
- cost optimisation programme,
- legal conditions connected with ensuring competitiveness on the coal market,
- consent to the purchase of a real property,
- concluding non-compete agreements with the members of the Management Board,
- information from the Chairman of the Supervisory Board related to the manners of avoiding conflicts of interest,
- information from the Management Board concerning Health and Safety,
- works on the update of the Strategy for 2015-2020,
- project to relocate the mechanic and electric workshops to the surface – MR Bogdanka Sp. z o.o.,
- road map for implementing IT systems,
- information from the Management Board concerning future operations of Łęczyńska Energetyka,

- information from the Management Board concerning reorganisation of the rail transport operations, information from the Management Board concerning concluding insurance agreements,
- information from the Management Board concerning research and development activity,
- strategy in sponsoring activity for 2015-2017.

Due to introducing Management Options Scheme by the Company, the Supervisory Board proposed an amendment to the conditions of employment contracts and a decrease in the value of the bonus for members of the Management Board remaining employed during next periods (reporting years) and on 27 March 2014, it adopted resolutions on concluding agreements amending employment contracts with particular members of the Management Board.

Pursuant to the provisions of Rule 1.5. of the "Code of Best Practice for WSE Listed Companies", on 12 June 2014, the Supervisory Board adopted a Resolution on the adoption of Rules governing remuneration to the members of the Supervisory Board and the Management Board.

On 12 June, the Supervisory Board adopted resolutions on concluding non-compete agreements with the members of the Management Board.

Minutes No.	Date	Resolution No.	Regarding
23/VIII/2014	21 Jan. 2014	94/VIII/2014	approving the Company's Technical and Economic Plan for 2014
		95/VIII/2014	adopting audit plan for 2014
		96/VIII/2014	granting consent to incur a credit facility in the amount of PLN 150,000,000
		97/VIII/2014	granting consent to establishing security with regard to the Company's obligation arising under the granted credit facility worth PLN 150,000,000
24/VIII/2014	03 Mar. 2014	98/VIII/2014	establishing Strategy Committee
		99/VIII/2014	updating a list of persons eligible for participation in the Management Options Scheme at Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka in 2013-2017, a list of positions covered with the scheme and granting the Options
By corresp.	17 Mar. 2014	100/VIII/2014	granting consent to the creation of a security interest with respect to the claims of a bank for a granted FX risk security
25/VIII/2014	27 Mar. 2014	101/VIII/2014	evaluation of performance of objectives for the Management Board for 2013 in accordance with the Rules of the Incentive System (MBO)
		102/VIII/2014	granting annual bonus to the President of the Management Board, Zbigniew Stopa, for 2013
		103/VIII/2014	granting annual bonus to the Vice-President of the Management Board, Roger de Bazelaire, for 2013
		104/VIII/2014	non-granting annual bonus to the Vice-President of the Management Board, Waldemar Bernaciak, for 2013
		105/VIII/2014	granting annual bonus to a member of the Management Board, Krzysztof Szlaga, for 2013
		106/VIII/2014	granting discretionary bonus to the Vice-President of the Management Board, Waldemar Bernaciak, for the financial year 2013
		107/VIII/2014	appointing Krzysztof Szlaga as the Vice-President of the Management Board

		108/VIII/2014	concluding an agreement amending the employment contract with the Vice-President of the Management Board Krzysztof Szlaga
		109/VIII/2014	concluding an agreement amending the employment contract with the President of the Management Board Zbigniew Stopa
		110/VIII/2014	concluding an agreement amending the employment contract with the Vice-President of the Management Board Roger de Bazelaire
		111/VIII/2014	concluding an agreement amending the employment contract with the Vice-President of the Management Board Waldemar Bernaciak
		112/VIII/2014	determining objectives for the Management Board for 2014 in accordance with the Rules of the Incentive System (MBO)
By corresp.	07 Apr. 2014	113/VIII/2014	granting consent to create security on claims that bank may have due to the agreement for opening a guarantee line
26/VIII/2014	24 Apr. 2014	114/VIII/2014	assessment of the Company's Financial Statements for the financial year 2013
		115/VIII/2014	assessment of the Management Boards motion regarding the distribution of net profit for 2013
		116/VIII/2014	assessment of meeting the conditions entitling to exercise Options for 2013
		117/VIII/2014	approving the Report of the Supervisory Board for the financial year 2013
		118/VIII/2014	updating a list of persons eligible for participation in the Management Options Scheme at Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka in 2013-2017, a list of positions covered with the scheme and granting the Options
		119/VIII/2014	motion to the Annual General Shareholders Meeting to grant discharge to members of the Management Board for the performance of their duties in the financial year 2013
By corresp.	29 May 2014	120/VIII/2014	granting consent to an issue of dematerialised bearer bonds worth PLN 600,000,000
By corresp.	29 May 2014	121/VIII/2014	granting consent to establishing security with regard to the Company's obligation arising under the issue of dematerialised bearer bonds worth PLN 600,000,000
By corresp.	03 Jun. 2014	122/VIII/2014	granting consent to the change of form of the security claim against the bank
27/VIII/2014	12 Jun. 2014	123/VIII/2014	granting consent to the purchase of land 289/5 with the area of 8.79 ha, located in district "10 – Puchaczów"
		124/VIII/2014	adoption of Rules governing remuneration to the members of the Supervisory Board and the Management Board
		125/VIII/2014	agreeing on template of a non-compete agreement with the members of the Management Board
		126/VIII/2014	concluding a non-compete agreement with the President of the Management Board
		127/VIII/2014	concluding a non-compete agreement with the Vice-President of the Management Board
		128/VIII/2014	concluding a non-compete agreement with the Vice-President of the Management Board
		129/VIII/2014	concluding a non-compete agreement with the Vice-President of the Management Board
By corresp.		130/VIII/2014	granting consent to an issue of dematerialised registered bonds worth PLN 600,000,000
		131/VIII/2014	granting consent to establishing security with regard to the

			Company's obligation arising under the issue of dematerialised registered bonds worth PLN 600,000,000
28/VIII/2014	26 Aug. 2014	No resolutions	
29/VIII/2014	25 Sep. 2014	132/VIII/2014	consent to the change of purpose of the unused part of sports sponsoring budget
By corresp.	09 Oct. 2014	133/VIII/2014	granting consent to conclude a donation agreement with the Rehabilitation and Education Centre in Łęczna
30/VIII/2014	14 Nov. 2014	No resolutions	
31/VIII/2014	05 Dec. 2014	134/VIII/2014	accepting the Sponsorship Strategy for 2015
		135/VIII/2014	granting consent to establish securities on agreements for derivative transactions in the form of a statement on submission to execution
By corresp.	31 Dec. 2014	136/VIII/2014	granting consent to changing security with regard to the Company's obligation arising under the issue of dematerialised bonds

III. Information on the activities of the Supervisory Board Committees

In 2014, the Audit Committee operated in the following composition:

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

In 2014, nine meetings of the Audit Committee were held on the following dates:

- 7 March 2014
- 17 March 2014
- 24 April 2014
- 6 May 2014
- 11 June 2014
- 26 August 2014
- 25-26 September 2014
- 4 November 2014
- 5 December 2014

Mr Raimondo Eggink did not participate in the meetings of the Audit Committee on 24 April 2014, 6 May 2014, and 26 August 2014, and Mr Eryk Karski did not participate in the meeting on 6 May 2014.

Except for these events, all meetings of the Audit Committee were attended by all of its members.

In 2014, the Audit Committee worked on the following matters:

1. Analysis of the role of the Audit Committee in the process of preparing an annual audit plan and a strategic audit plan.
2. Report on the audits and controls performed by the Audit and Internal Control Department in 2013
3. Report of the Risk Management Department at LW BOGDANKA S.A. with respect to the operation of ERM in 2013
4. Review of the financial statements for 2013:

- a) Notes No. 7, 12, 28,
 - b) Correctness of attributing incurred costs to current costs of operation (directly into the profit and loss account) and activated as investments,
 - c) Risks described in the statements related to the possibility of achieving worse quality parameters while mining a deposit,
 - d) Depreciation of the value of buildings and constructions,
 - e) Assets held for sale – vacation centres Stary Tartak and Łazy,
 - f) Implementation of the audit recommendations of E&Y within some fields of the Company's operations,
 - g) Proposal to add for strategic purposes a restructuring of the delivery chain and an increase of competition on the market of horizontal mining works,
 - h) Accompanying investments in Łęczyńska Energetyka Sp. z o.o.,
 - i) Level of remuneration in subsidiaries,
 - j) Results of balance-sheet valuation as at 31 December 2013, broken down by maturity periods,
 - k) Management Options Scheme,
 - l) Change in employee benefits liabilities,
 - m) Provisions for other liabilities and encumbrances, and finance income and costs,
5. Accounting policy with respect to the disclosure of Co₂ emission,
 6. Model of management options valuation,
 7. Legal claims with the description of the status of particular cases,
 8. Actuarial calculations for provisions for employee benefits,
 9. Information concerning tax on real properties.
 10. Review of the financial statements for Q1 2014:
 - a) Sales of ceramics,
 - b) Provision for mining damage,
 11. Information concerning implementation and functioning of financial and operating controlling,
 12. Report on audits conducted in Q1 2014, Audit of the process of concluding agreements in Łęczyńska Energetyka Sp. z o.o.
 - b) Audit of the process of managing physical security of the Company,
 - c) Audit of the process of managing explosives,
 13. Report with respect to the operation of ERM for Q1 2014,
 14. Review of the financial statements for H1 2013:
 - a) Non-current investments,
 - b) Acquisition of property, plant and equipment,
 - c) Notes No. 5, 13, 19, 21,
 - d) Dates of amortisation of geological information,
 - e) Hedging of foreign exchange transactions,
 - f) Past due receivables,
 - g) Dispute with the Social Insurance Institution (ZUS) concerning contributions to accident insurance,
 - h) Coal deposit on the damp by the mine,
 - i) Transaction of purchasing assets (MR Bogdanka sp. z o.o.),
 - j) j) Claims for remuneration for inventions,
15. Commercial coal production
 16. Value of employee benefits,
 17. Cost of products, goods and materials sold,
 18. Costs of electricity,

19. Report on audits conducted in Q2 2014,
 - a) Audit of the process of planning the demand for raw materials in the Company,
 - b) Audit of the record of occupational health and safety (*BHP*) costs,
20. Report with respect to the operation of ERM for H1 2014,
21. Proposals of changes to the reporting structure,
22. Report on audits conducted in Q3 2014,
 - a) Audit of procedures related to planning and implementation of required renovation works and periodic inspections of selected machines and devices,
 - b) Audit of using free vouchers allowing the purchase of supportive meals granted to authorised employees,
 - c) Control of the process of collecting, documenting, transporting and settling materials provided to particular organisational units,
 - d) Control with respect to fuel economy in the Company (use, consumption, documentation, supervision),
23. Opinion concerning "Audit Plan for 2015, and 2016-2017",
24. Information concerning recovery of the casing and its accessories in the period from January to October 2014,
25. Information concerning occupational health and safety.

Appointment and Remuneration Committee

In 2014 the Appointment and Remuneration Committee operated in the following composition:

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

In 2014, meetings of the Appointment and Remuneration Committee were held four times on the following dates:

- 12 February 2014
- 26 February 2014
- 10 June 2014
- 11 September 2014

The attendance rate at the meetings of the Appointment and Remuneration Committee in 2014 was 100.0 %.

The Appointment and Remuneration Committee evaluated the achievement of quantitative and qualitative objectives by the Management Board for 2013, as well as participated in developing a Charter of Objectives as part of the Incentive System for 2014.

Since the Company implemented the Management Options Scheme, the Appointment and Remuneration Committee applied for amending the employment contracts with particular members of the Management Board.

The Appointment and Remuneration Committee prepared a draft "Rules governing remuneration to the members of the Supervisory Board and the Management Board of Lubelski Węgiel Bogdanka S.A." and drafts of non-compete agreements for the members of the Management Board.

Strategy Committee

In connection with implementation of the Company's Development and Operation Strategy for 2013-2020, and therefore its necessary monitoring and update, during the meeting of the Supervisory Board held on 3 March 2014, the Strategy Committee was appointed in the following composition:

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

In 2014, meetings of the Strategy Committee were held twice on the following dates:

- 15-16 May 2014
- 28 November 2014

Both meetings of the Strategy Committee in 2014 were attended by all of its members, including the Chairman of the Supervisory Board.

Due to material changes on the hard coal market, there are ongoing works on updating the Company's Operation and Development Strategy for 2015-2020. The committee prepared strategic workshops for the Supervisory Board and the Management Board, as well as analysed the report of the external advisor (Roland Berger) concerning a forecast for the commercial coal market in Poland and perspectives for LW Bogdanka S.A. in 2015-2020, taking into account the effects of restructuring and the government's support for Kompania Węglowa S.A.

The committee analysed also strategic scenarios for providing access to deposits in a long term.

IV. Composition of the Management Board

In 2014 the Management Board of the 8th term of office operated at the Company, and as at the Report date its composition was as follows:

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|-----------------------|--|
| 1. Zbigniew Stopa | – President of the Management Board |
| 2. Waldemar Bernaciak | – Vice-President of the Management Board, Trade and Logistics |
| 3. Roger de Bazelaire | – Vice-President of the Management Board, Economic and Financial Affairs |
| 4. Krzysztof Szlaga | – Member of the Management Board, Procurement and Investments, since 27 March 2014 - Vice-President of the Management Board, Procurement and Investments |

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

Rules of remuneration of the Management Board members have been specified by the Company's Supervisory Board.

Members of the Management Board are employed on the basis of employment agreements, concluded between the Supervisory Board, represented by the authorised members, and individual persons appointed to the Company's Management Board.

Main elements of the incentive system for the members of the Management Board include:

1. Fixed monthly base remuneration.
2. In line with the incentive system adopted in the Company – maximum bonus of 30% of the base remuneration, dependant on the level of fulfilment of financial and non-financial goals set by the Company's Supervisory Board in a given year (individual MBO bonus tasks).
3. Annual bonus for a given financial year equal to 50% of the extra salary (until 2013 - 100%), the payment of which is deferred by one year and depends on their continued employment.
4. Management Options Scheme for 2013-2017 – under Resolution No. 26 of the Annual General Shareholders Meeting of LW BOGDANKA S.A. of 4 July 2013 and Resolution of the Supervisory Board No. 90/VIII/2013 of 30 September 2013. The granted options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares on terms and conditions set out in the Rules.
4. Compensation for the termination of the Employment contract with a member of the Management Board by the Company upon notice period, in the amount of 3 monthly base remunerations.
5. Compensation for non-competition following the expiry of the employment relationship, in the amount of a half-year base remuneration, resulting from the obligation made by the members of the Management Board not to undertake any competing activity within one year, paid in monthly instalments.

Additional benefits for the members of the Management Board include the use of a company car, as well as the use of technical tools and devices necessary to perform the duties of a member of the Management Board.

On 5 May 2015, the Supervisory Board made an assessment of business criteria for the exercise of options and adopted a resolution confirming the fulfilment in 2014 of one of two business conditions, i.e. JKW_r.

V. Information on appointing a chartered auditor

In order to review and audit the Financial Statements of Lubelski Węgiel Bogdanka S.A. and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for 2012, 2013 and 2014 and to prepare written opinions and reports on whether the Financial Statements are correct and present in a reliable and clear manner the financial standing and financial results of the Company and the Group, having conducted a tender, the Supervisory Board, following a recommendation of the Audit Committee, by virtue of Resolution No. 9/VIII/2012 of 27 June 2012, appointed Deloitte Audyt Sp. z o.o. (currently Deloitte Polska Sp. z o.o. Sp. k.) as the auditor.

According to the Auditor, the audited Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2014 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2014 were prepared, in all material aspects, in accordance with the International Financial Reporting Standards (IFRS) and related interpretations announced by way of Regulations of the European Union, and to the extent not regulated by those standards, as required by the Polish Accounting Act and executive regulations issued pursuant thereto, and on the basis of properly kept accounting books. The financial statements subject to assessment comply with the applicable provisions of law and the Company's Articles of Association affecting the content thereof, and present

fairly and clearly all information material for evaluating the Company's profitability and profit (loss) on its operations in 2014, as well as the Company's financial and economic situation as at 31 December 2014. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the financial year 2014 and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2014 contain information on the Company that is true, consistent with the data contained in the financial statements, and they present fully and fairly the Company's situation, including all important events.

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

Except for auditing the annual financial statements of the Company and the consolidated financial statements of the Group, as well as reviewing interim financial statements, Deloitte performed:

- verification of the calculation of "Net debt/EBITDA" ration, in accordance with the requirements of the Programme Agreement related to the issue of bonds (of 27 September 2013 and of 30 June 2014) – PLN 30,000 in total,
- verification of the calculation of JKWr and EPS ratios – criteria conditioning the performance of management options – PLN 10,000,
- verification of data for the purposes of Respect Index – PLN 4,700.

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

Lubelski Węgiel BOGDANKA S.A. is Poland's leader among the producers of power coal. In the period from 1 January to 31 December 2014, compared to the analogous period of 2013, commercial coal output increased by 10.15% to 9,192,000 tonnes (the figure does not include the inventory-taking surplus of 61,000 tonnes disclosed during the reporting year) – a year before the net production was 8,345,000 tonnes. In the period from 1 January to 31 December 2014, sales of commercial coal totalled 9,163,000 tonnes, i.e. up by 12.47% (818,000 tonnes) compared to the same period of the previous year. This translated into coal sales of PLN 1,926,795,000, which affected the Company's total revenue, of PLN 2,010,499,000, in 2014 compared to the figure of PLN 1,894,108,000 for the same period of the previous year.

1. Financial results

During the four quarters of 2014, LW BOGDANKA S.A.'s revenue from the sale of coal amounted to PLN 2,010,499,000, which represented an increase of PLN 116,391,000 compared to the revenue figure for the same period of 2013.

The main source of revenue for LW BOGDANKA during the four quarters of 2014 (and of 2013) was the production and sale of power coal. In the period from 1 January to 31 December 2014, this business generated 95.83% of the Company's revenue (96.35% in the same period of the previous year). The increase in coal sales is attributable to an increase in the quantities of the coal sold (up by 12.47%).

2. Profitability ratios

The Company's profitability ratios stood at higher levels in 2014 compared to 2013.

Gross margin on sales of LW BOGDANKA went down from 23.94% (4 quarters of 2013) to 18.40% (4 quarters of 2014). The change in the value of that ratio was affected by a decrease in the dynamics of revenue in relation to the change in incurred costs of products, goods and materials sold (including selling and administrative costs).

In the analysed period EBIT (operating profit) amounted to 17.84%, which means a decrease by 4.44 p.p. compared to the same period of the previous year.

EBITDA went down from 39.47% (4 quarters of 2013) to 36.89% (4 quarters of 2014). The change in value of the ratio (except for the growing depreciation/amortisation) was caused by EBIT going down by PLN 63,452,000, which was directly related to the drop of coal prices.

3. Coal production and sales

In 2014, the Company's output of commercial coal arrived at 9.192 million tonnes (the figure does not include the inventory-taking surplus of 0.061 million tonnes disclosed during the reporting year), which represented an increase of 10.15% compared to the output level for the previous year (up by 0.818 million tonnes).

Sales in 2014 amounted to almost 9.163 million tonnes, which represented an increase of 12.47% compared to the sales figure for the previous year.

4. Strategy

The revised Strategy:

In view of significant changes to market conditions, involving such factors as a substantial decline in coal prices, the size of the coal reserves in Silesian mines and power plants and the government intervention plans in the mining and power engineering sector, the Company's Management Board has decided to revise its Strategy for 2015-2020.

The Strategy's main objectives:

- Maintaining LW Bogdanka S.A.'s position of a cost leader – creating the conditions for keeping down extraction costs in the long term by optimising the structure and level of extraction, as well as continuing to reduce the Company's running costs;
- Selling coal to the power industry, heating and chemical sectors – by expanding the Company's customer base and branching out into new, attractive market segments;
- Expanding on the domestic market – constantly keeping track of new investment schemes and projects in the region;
- Getting a foothold in international markets.

At present, the Management Board is in the process of carrying out a multi-option analysis of the Company's operations, taking into account the possible developments in the coal market (demand and prices) by 2020. The Company will use its findings to revise the Strategy.

The Company has achieved its target production capacity of 10.5-11.5 million tonnes (depending on geological conditions), however, due to the current market downturn, the sales of commercial coal in 2015 are forecast to reach the level of 9.3-9.5 million tonnes. The Company's investment outlays in 2015 are expected to amount to the maximum of PLN 484 million, with cash expenditure on fixed and

intangible assets capped at PLN 594 million (due to the payment for the fourth wall-ploughing complex being carried forward from 2014 to 2015).

At present the Company is working out the options to adjust its operations to the level of coal extraction (sales capacity), involving further cost-cutting and the reduction of capital expenditure. The capex level for the coming years will be communicated jointly with the revised Strategy.

The dividend policy approved as part of the Strategy for 2013-2015 provided for the payment to the Company's shareholders of a dividend amounting to 60% of consolidated net profit. Due to the material adverse changes to the market situation and the development prospects for 2015-2016, the Company's Management Board has put forward a motion to waive the provisions of the dividend policy with respect to the recommended dividend for 2014. The Management Board has decided to recommend a dividend of 37.5% of consolidated net profit for 2014.

At the moment the Management Board is reviewing its dividend policy for the years to come, taking into account both local and global trends and pricing conditions. It is a key priority for the Company to secure its financial liquidity and stability. The dividend policy for the years to come will be adopted and announced by 30 June 2015, together with the revised business strategy for 2015-2020.

The application of the above assumptions will enable the Company to boost its effectiveness, while at the same time postponing the decisions regarding its further development until the Polish hard coal market stabilises.

VII. Assessment of the internal control system

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

internal control system is determined in particular by:

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

Moreover, in the process of preparing the Company's financial statements, one of the basic control measures is half-yearly verification of the Company's financial statements by a chartered auditor.

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

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

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

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT finance and accounting system, forming part of the INTEGRA Integrated Management System. It provides conformity of accounting records and legislative regulations. Methods of controlling IT systems ensure comprehensiveness and certainty of undisturbed accounting information, and authorisation of all transactions. The systems used are password protected against access by unauthorised persons and have functional system and data access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check.

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

Monitoring and controlling operations are performed also by a separated organisational unit - the Audit and Internal Control Department which submits the results of its operations to the Company's Management Board and to the Audit Committee, operating within the Company's Supervisory Board.

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

As a result of the audit and control tasks carried out in 2014, post-inspection instructions were issued (Instructions by the President of the Management Board). These are being implemented on an ongoing basis, which is contributing to improvement of the way the Company's processes are organised.

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

VIII. Assessment of the risk management system

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

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

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

6. List of Risk Owners.

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

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

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

For the purpose of implementing the corporate risk management system, the Company's Management Board organised a Risk Management Department to be responsible for, above all, shaping, developing and improving the system, as well as for its gradual implementation in all the areas of the Company's operation and for administering the system. A Corporate Risk Management Committee was appointed to coordinate, implement and make the decisions defined as part of the system. The Committee consists of the Company's key personnel representing the Company's main business areas. The Risk Management Department and the Corporate Risk Management Committee provide the Management Board and the Supervisory Board (the Audit Committee) with appropriate statements and reports related to corporate risk management. In 2014, the Company identified and recorded in the Risk Register 313 risks from all areas of corporate activity, managed by 41 Risk Owners. Using the ERM System, three risk assessments were conducted in 2014, during the last one (in December 2014) 12 risks were assessed as strategic, i.e. material for the Company's operations. The Management Board approved programmes and measures developed by Risk Owners to minimise those risks.

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

7. Reasonableness of the current sponsorship policy

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

It is partly due to the financial support of the Company allocated towards player education and training that Górnik Łęczna S.A. football club advanced to the Polish Premier League (*Ekstraklasa*) in the 2014/2015 season, which directly translated into greater media coverage for the Company (this includes a nearly 250% increase in fan turnout at Łęczna stadium and live broadcasts of Ekstraklasa matches). Górnik Łęczna's success in competitive sports is of great importance to the local community and Company's employees and contributes to increased interest on the part of young people in pursuing an active lifestyle. As part of the sponsorship co-operation, Górnik Łęczna S.A. runs a Górnik

Łęczna Sports Academy, enabling a large group of children and teenagers from Łęczna and its surrounding areas to participate in regular training sessions. Another major sponsorship area for the Company includes the co-operation with Lublin Municipality aimed at organising Carnival Sztuk-Mistrzów, a cultural event of nationwide popularity.

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

- The number of organisations supported is limited; in 2014 they included 1 entity under sports sponsorship and 12 entities under social and cultural sponsorship,
- Youth training is offered in various sports disciplines (co-operation with the local community aimed at fostering children and youth's physical and mental growth),
- The sponsorship payments to beneficiaries are monitored on an ongoing basis through the following measures: the funds are paid out either in instalments or upon the completion of a given project, the sponsor is presented a detailed breakdown of expenses (as earmarked) and reports (an overview of project execution and promotional activities benefiting the Company), the Company is entitled to terminate sponsorship contracts unilaterally without giving any reason.

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

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

8. Evaluation of the application of Corporate Governance

In 2014 the Company complied with the rules of the "Code of Best Practice for WSE Listed Companies" adopted by the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective as of 1 January 2013.

The Company strives to follow nearly all the rules provided for in the Code of Best Practice and notifies the market on an ongoing basis of any deviations from said rules. At present the Company does not apply the rule contained in Section IV.10 of the Code of Best Practice for WSE Listed Companies, on providing the shareholders with the possibility to participate in the general shareholders meeting with the use of electronic means of communication, which consists in real-time transmission of the general meeting sessions as well as two-way real-time communication, enabling the shareholders, who are not physically present at the general meeting, to speak during the meeting. As required by law, the Company announced the above in its Corporate Governance Report 1/2013 of 29 May 2013.

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

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

The Supervisory Board monitors, on an ongoing basis, the correct execution by the Company of disclosure requirements with respect to the application of Corporate Governance principles. At the moment the Supervisory Board is involved in the work aimed at ensuring the Company's adequate preparation for the changes to be introduced in the Code of Best Practice for WSE Listed Companies scheduled to take effect in 2015.

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.

5. Summary

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

IX. Report on results of the assessment of the Company's financial statements and the motion of the Management board regarding distribution of net profit for the financial year 2014.

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

1. the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the period from 1 January 2014 to 31 December 2014;
2. Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January 2014 to 31 December 2014, including:
 - statement of financial position prepared as of 31 December 2014, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 4,322,983,000**;
 - income statement for the period from 1 January 2014 to 31 December 2014, showing net profit in the amount of **PLN 272,942,000**;
 - statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 showing a positive total comprehensive income in the amount of **PLN 261,189,000**;
 - statement of movements in the equity for the period from 1 January 2014 to 31 December 2014, showing an increase in the equity by **PLN 69,289,000**;
 - statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing a decrease in cash by **PLN 5,635,000**;
 - notes, detailing for the adopted accounting policy, as well as additional information.
3. Directors' Reports on Operations of the Lubelski Węgiel Bogdanka Group for the period from 1 January 2014 to 31 December 2014;
4. Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January 2014 to 31 December 2014, including:

- consolidated statement of financial position prepared as of 31 December 2014, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 4,364,415,000**;
- consolidated income statement for the period from 1 January 2014 to 31 December 2014, showing net profit in the amount of **PLN 272,352,000**;
- consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 showing a positive total comprehensive income in the amount of **PLN 260,498,000**;
- consolidated statement of movements in the equity for the period from 1 January 2014 to 31 December 2014, showing an increase in the equity by **PLN 68,296,000**;
- consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing a decrease in cash by **PLN 16,523,000**;
- notes, detailing for the adopted accounting policy, as well as additional information.

As a result of the analysis and on the basis of the auditor's opinion and the audit report conducted by chartered auditors, 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 2014 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2014 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 2014 financial year, as well of the Company's financial and economic situation as at 31 December 2014. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the 2014 financial year and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the 2014 financial year contain information on the Company that is true, consistent with the data contained in the financial statements and they fully and reliably present the Company's situation, including all important events.

The Supervisory Board issues its positive opinion on the Management Board's motion, in accordance with which the generated net profit in the amount of **PLN 272,942,404.07** will be allocated as follows:

- the amount of PLN 102,040,770.00 will be allocated for a dividend for shareholders, i.e. PLN 3.00 per share;
- the amount of PLN 170,901,634.07 will be allocated for a write off to the Company's supplementary capital.

X. Cooperation of the Supervisory Board and the Trade Unions

Four union organisations operate at the Company.

As at 31 December 2014, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1,184 members
2. Trade Union of Miners in Poland 1,615 members
3. "Kadra" Trade Union 293 members
4. "Przeróbka" Trade Union 267 members

As at 31 December 2014, the number of staff employed at the Company amounted to 4,930 persons. In total, 3,359 employees were members of trade union organisations, which constitutes 68.13% of the total head count.

In 2014, the Supervisory Board held two meetings with the chairmen of the trade unions. The subjects discussed referred primarily to the human resources policy, safety of the resources management, performance of the development programme and the decision issued by the Minister of the Environment refusing the mining licence for the K-6 and K-7 areas.

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

XI. Cooperation of the Supervisory Board and the Management Board of the Company

Within the framework of rights and powers held, the Supervisory Board provided the Management Board with active support in implementation of the Company's goals for 2014, analysing and assessing issues submitted to the meetings by the Company's Management Board.

The Supervisory Board states that in Lubelski Węgiel Bogdanka S.A. the principles of the corporate governance are observed in compliance with the "Code of Best Practice for WSE Listed Companies" adopted by the Company for execution, and the Management Board's position with respect to the observance of the above principles is published by the Company in the form of current reports and put on the website www.lw.com.pl in the Investors Relations tab.

The Supervisory Board has a positive opinion of its work with the Company's Management Board in 2014 and of the administrative and organisational aspects of the work of both the Supervisory Board as well as of the Audit Committee, the Appointment and Remuneration Committee and the Strategy Committee.

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

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

Members of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. exercised due diligence in performance of their duties, using their knowledge and experience within the scope of running and supervising commercial companies. Due to their high competence and engagement of individual Board members and efficient organisation, the Supervisory Board effectively performed its statutory duties.

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. A total gross remuneration paid to the Supervisory Board members for performing their duties in the Company in 2014 amounted to PLN 930,000.00.

The Company shall cover the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision. In 2014, the total costs mentioned above amounted to PLN 56,616.30.

The Supervisory Board applies for reviewing and approving this Report and granting discharge to the members of the Supervisory Board in respect of performance of their duties in the financial year 2014.

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

Witold Daniłowicz	Chairman of the Supervisory Board	[signature]
Stefan Kawalec	Deputy Chairman of the Supervisory Board	[signature]
Raimondo Eggink	Secretary of the Supervisory Board	[signature]
Robert Bednarski	Member of the Supervisory Board	[signature]
Dariusz Formela	Member of the Supervisory Board	[signature]
Eryk Karski	Member of the Supervisory Board	[signature]
Tomasz Mosiek	Member of the Supervisory Board	[signature]
Michał Stopyra	Member of the Supervisory Board	[signature]

Bogdanka, 5 May 2015