



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

REPORT ON OPERATIONS
OF THE SUPERVISORY BOARD
OF LUBELSKI WĘGIEL BOGDANKA S.A.
AS THE COMPANY'S GOVERNING BODY
FOR 2011

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I. Term of Office of the Supervisory Board

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. (hereinafter referred to as the "Supervisory Board", or the "Board") is a permanent supervising authority of LW Bogdanka in all fields 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 exercises permanent supervision over the Company's operations and 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.

II. Composition of the Supervisory Board

In 2011 the Supervisory Board for the 7th term of office was composed of:

- | | |
|-----------------------|--|
| 1. Eryk Karski | - Chairman of the Supervisory Board |
| 2. Stefan Kawalec | - Vice-Chairman of the Supervisory Board |
| 3. Jadwiga Kalinowska | - Secretary of the Supervisory Board (Member of the Supervisory Board, elected by the Company's employees) |
| 4. Ewa Pawluczuk | - Member of the Supervisory Board |
| 5. Andrzej Lulek | - Member of the Supervisory Board |
| 6. Adam Partyka | - Member of the Supervisory Board (elected by the Company's employees). |

This was also the composition of the Supervisory Board of LW Bogdanka S.A. as at 31 December 2011, i.e. as at the day of submitting the Report.

The 7th term of office of the Supervisory Board expires at the date of holding the Annual General Shareholders Meeting during which the Company's financial statements for 2011 are approved.

III. Meetings of the Supervisory Board and the number of resolutions adopted

Meetings of the Supervisory Board in 2011 were convened by the Chairman. Dates of holding meetings were each time agreed by all of the members of the Supervisory Board.

During the reporting period, the Supervisory Board held 8 meetings on the following dates:

5 January 2011	no resolutions adopted
2-3 March 2011	5 resolutions
13-14 April 2011	19 resolutions
10 May 2011	no resolutions adopted
27-28 June 2011	4 resolutions

28 July 2011	3 resolutions
27-29 September 2011	1 resolution
30 November 2011	2 resolutions

In addition, on 8 June 2011, the Supervisory Board adopted one resolution by correspondence.

During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. jointly adopted 35 resolutions.

IV. Supervisory Board Members' attendance at the meetings

The meeting of the Supervisory Board held on:

- 28 July 2011 was not attended by Mr Adam Partyka.

The Supervisory Board considered his absence justified and adopted a relevant resolution in this respect. Other meetings were attended by all of the members of the Supervisory Board.

V. Significant issues addressed by the Supervisory Board

Within the scope of its operations, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. considered motions of the Management Board regarding issues which, according to the Company's Articles of Association, require the consent of the Supervisory Board.

During the meetings held in 2011, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues:

- the Company's current situation as regards technical, economic, financial and social issues;
- the Management Board's statement on a tender offer announced by NWR N.V. to acquire shares in LW Bogdanka S.A.,
- the Company's Technical and Economic Plan, its correction and implementation;
- statements on meetings of the Audit Committee,
- consent for the Company to dispose of its fixed assets, i.e. perpetual usufruct of real estate,
- appointment of a Management Board Member elected by the employees, determination of the terms and conditions of a contract of employment and execution of the contract of employment,
- an update of the "LW BOGDANKA S.A. development strategy for 2007-2015 based on the enlargement of the Stefanów Field" document,
- presentation of the Company's cost structure according to a departmental cost accounting policy,
- issues submitted by the Management Board to the General Shareholders Meeting;
- auditor's opinions and audit reports on the Company's financial statements for 2010 prepared by the auditor,
- Financial Statements and Directors' Reports for the financial year 2010;
- Report on Operations of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as the Company's governing body for 2010;
- motion to the Annual General Shareholders Meeting to grant discharge to the Members of the Management Board;
- motion regarding the distribution of net profit for 2010;
- motions submitted by the President of the Management Board to grant the annual award to the Members of the Management Board for the financial year 2010;

- amendments to the Company's Articles of Association and its uniform text;
- statements on donations made by the Company in 2011,
- a Supreme Chamber of Control report on the security of coal supply through Poland's domestic production,
- information on the investment project called "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant";
- a meeting of the members of the Supervisory Board with the chairpersons of the trade unions at LW Bogdanka S.A.,
- a statement on the assumptions of the Managerial Options Scheme,
- amendments to the Rules of Procedure of the Supervisory Board,
- approval of amendments to the Rules of Procedure of the Management Board,
- the Management Board's statement on delays in implementing investment projects related to increasing the Company's production capacity,
- the Management Board's statement on measures taken to reduce the Company's costs,
- the Management Board's statement on the progress of the Stefanów Field enlargement project,
- the Management Board's statement on the implementation of a risk management system within the Company,
- legal opinions on the Company's claims against Mostostal Warszawa in the event of Mostostal's failure to meet the deadline for performance of its contract with the Company and on the risks related to the exercise of such claims,
- information on the production activities of the Mine,
- the rules and procedure for the appointment of statutory auditors and the monitoring, by the Audit Committee, of non-audit services,
- the Management Board's statements on the progress of performance of contracts for the sale of coal in 2011,
- the Management Board's statement on the Company's organisation – presentation of the Company's management,
- the wage policy for 2012.

Furthermore, the Supervisory Board attended the Company's Annual General Meeting.

VI. List of resolutions adopted by the Supervisory Board in 2011

Date	Resolution No.	Resolution on:
5 Jan. 2011	No resolutions adopted	
2-3 Mar. 2011	86/VII/2011	issuing an opinion on the Company's Technical and Economic Plan for 2011.
	87/VII/2011	the Management Board's motion to grant consent to the Company selling fixed assets in the form of perpetual usufruct right to the property.

	88/VII/2011	appointing the Management Board Member elected by the employees.
	89/VII/2011	establishing terms and conditions of the employment agreement with the Management Board Member elected by the employees.
	90/VII/2011	concluding the employment agreement with the Management Board Member elected by the employees.
13-14 April 2011	91/VII/2011	issuing an opinion on the update of the "Development Strategy of Lubelski Węgiel Bogdanka S.A. for the years 2011-2015 based on the enlargement of the Stefanów Field."
	91/VII/2011	assessment of the Company's Financial Statements for the financial year 2010.
	93/VII/2011	assessment of the Directors' Report on Operations of the Company for the financial year 2010.
	94/VII/2011	assessment of the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2010.
	95/VII/2011	assessment of the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2010.
	96/VII/2011	the motion to the Annual General Shareholders Meeting to grant discharge to the President of the Management Board.
	97/VII/2011	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management Board.
	98/VII/2011	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management Board.
	99/VII/2011	the motion to the Annual General Shareholders Meeting to grant discharge to the Vice-President of the Management Board.
	100/VII/2011	the motion to the Annual General Shareholders Meeting to grant discharge to the Member of the Management Board.
	101/VII/2011	issuing an opinion on the Management Board's motion regarding the amendments to the Company's Articles of Association.
	102/VII/2011	assessment of the Management Board's motion regarding the distribution of net profit for 2010.
	103/VII/2011	approving the Report on Operations of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. as the Company's governing body for 2010.
	104/VII/2011	approving the Supervisory Board's Report on the assessment of the Company's Financial Statements, the Directors' Report on Operations for 2010, and the Management Board's motion regarding the distribution of profit.
	105/VII/2011	approving the Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Directors' Report on Operations of the Group for 2010.
	106/VII/2011	granting annual bonus to the President of the Management Board for the financial year 2010.
	107/VII/2011	granting annual bonus to the Vice-President of the Management Board for the financial year 2010.
	108/VII/2011	granting annual bonus to the Vice-President of the Management Board for the financial year 2010.
	109/VII/2011	granting annual bonus to the Vice-President of the Management Board for the financial year 2010.
10 May 2011	No resolutions adopted	

8 Jun. 2011	110/VII/2011	appointing a chartered auditor to review the Company's financial statements for the first half of 2011, and audit the Company's financial statements and the Group's consolidated financial statements for 2011.
27-28 Jun. 2011	111/VII/2011	approving minutes of the Supervisory Board No. 19/VII/2011.
	112/VII/2011	amendments to the Rules of Procedure of the Supervisory Board.
	113/VII/2011	approving the uniform text of the Company's Articles of Association.
	114/VII/2011	approving the Management Board Rules.
28 Jul. 2011	115/VII/2011	approving minutes of the Supervisory Board No. 20/VII/2011.
	116/VII/2011	justifying the absence of the Supervisory Board Member.
	117/VII/2011	the Management Board's motion to grant consent to the Company selling fixed assets in the form of perpetual usufruct right to the property.
27 Sept. 2011	118/VII/2011	approving minutes of the Supervisory Board No. 21/VII/2011.
30 Nov. 2011	119/VII/2011	approving minutes of the Supervisory Board No. 22/VII/2011.
	120/VII/2011	approving the principles and procedure for the selection of chartered auditors and monitoring outside-audit services by the Audit Committee.

VII. Information on the activities of the Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2011.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of three members, at least two of whom are independent members, and at least one has competence and experience with regard to accounting or auditing. The task of the Audit Committee is advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as cooperation with chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee include:

- monitoring the process of financial reporting and auditing;
- monitoring the efficiency of internal control, internal audit and risk management systems;
- cooperation with the chartered auditor auditing the Company's financial statements and monitoring independence of the chartered auditor and the entity authorised to audit financial statements, as well as recommending to the Supervisory Board the auditor to be selected;
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
- providing the Supervisory Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

The Audit Committee was appointed on 6 July 2010 in the following composition:

1. Ewa Pawluczuk - Chairperson
2. Jadwiga Kalinowska - Secretary
3. Eryk Karski - Member

In 2011, the Audit Committee worked on the following matters:

- an analysis, carried out together with representatives of Deloitte Advisory Sp. z o.o., of the process of implementing the audit and risk management functions at the Company,
- an analysis of the role of the Audit Committee in the process of preparing an annual audit plan and a strategic audit plan,
- a review of the 2010 financial statements and a recommendation to the Supervisory Board on their assessment,
- a review and monitoring of interim financial statements,
- a recommendation to the Supervisory Board on the appointment of an auditor to review and audit the Company's 2011 financial statements,
- a review of the scope of the statutory auditor's services under contracts under than for a review or an audit of the Company's financial statements,
- a recommendation to the Supervisory Board on the introduction of a rule for changes of statutory auditors,
- a recommendation to the Supervisory Board on the introduction of a policy for non-audit services,
- regular meetings with the Audit & Internal Control Department Manager – a statement on the tasks carried out in 2011, an analysis of the Audit & Internal Control Department's annual report on the implementation of the Company's audit and control plan in 2011, an analysis of the results of audits and inspections carried out during the first half of 2011,
- regular meetings with the Risk Management Coordinator – a statement on the tasks carried out in 2011, particularly the tasks related to the implementation of a risk management system within the Company, and an analysis of the risk map,
- a review of changes to the Company's accounting policy and of significant revaluations and accounting judgements,
- an analysis, carried out together with representatives of the statutory auditor, of the nature and scope of an audit of the Company's annual separate and consolidated financial statements for 2011.

The Audit Committee, with the assistance of the Head of the Internal Audit and Control Department, carried out a thorough analysis of the proposals for the audit of the Company's Financial Statements for 2011 and the Consolidated Financial Statements of the Group for 2011, prepared in accordance with the International Accounting Standards (IAS), and recommended that the Supervisory Board select PricewaterhouseCoopers Sp. z o. o.

Based on this recommendation, and on the opinion of Ms Krystyna Borkowska, the Vice-President, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. by virtue of Resolution No. 110/VII/2011 of 8 June 2011.

VIII. Changes in the composition of the Management Board introduced by the Supervisory Board

Since 1 January 2011 the Management Board for the 7th term of office has been composed of:

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| 1. Miroslaw TARAS | President of the Management Board |
| 2. Zbigniew STOPA | Vice-President of the Management Board for Technical Affairs |
| 3. Waldemar BERNACIAK | Vice-President of the Management Board for Trade and Logistics |
| 4. Krystyna BORKOWSKA | Vice-President of the Management Board for Economic and Financial Affairs, Chief Accountant |

On 3 March 2011, the Company's Supervisory Board appointed Mr Lech Tor for the seventh term of office of the Management Board. He performs the function of the Management Board Member elected by the employees. As at 31 December 2011 and as at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

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|-----------------------|---|
| 1. Miroslaw TARAS | President of the Management Board |
| 2. Zbigniew STOPA | Vice-President of the Management Board for Technical Affairs |
| 3. Waldemar BERNACIAK | Vice-President of the Management Board for Trade and Logistics |
| 4. Krystyna BORKOWSKA | Vice-President of the Management Board for Economic and Financial Affairs, Chief Accountant |
| 5. Lech Tor | Member of the Management Board elected by the employees |

IX. 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 2011, 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 by virtue of Resolution No. 110/VII/2011 of 8 June 2011, appointed PricewaterhouseCoopers Sp. z o.o. as the auditor.

X. Assessment of the Company's position, the system of internal control and the system of risk management

Assessment of the Company's position

Acting under Article 382.3 of the Polish Commercial Companies Code and Article 32.1.1 of the Company's Articles of Association, the Supervisory Board read the Directors' Report on Operations of the Company for the reporting period, i.e. from 1 January 2011 to 31 December 2011, and made an assessment thereof. The Supervisory Board states that the information included in the Report is complete and conforms to the information included in the Financial Statements as well as the facts, presents in a complete and reliable manner the Company's position, and provides details of all significant events.

LW Bogdanka S.A.'s 2011 results are good, although the Company failed to achieve most of the results forecast in the Company's Technical and Economic Plan for 2011. This was caused by, above

all, a delay in implementing the Stefanów Field project. As a result of the delay, the start of mining work at the Stefanów Field, originally scheduled for 1 July 2011, was postponed, for reasons beyond the Company's control, to October 2011.

The aggregate revenue on sales in 2011 amounted to PLN 1,289,670,000 and the net profit was PLN 218,978,000.

Based on its 2011 production and sales results, the Company now enjoys an approx. 6.4% share of the hard coal production market in Poland (7.5% for power coal) and an approx. 7.0% share of the Polish hard coal sales market.

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. was 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.

Comprehensive internal control system is determined in particular by:

- Organisational Rules of Procedure;
- internal instructions, regulations and procedures;
- Rules of Internal Control.

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, enabling it to make appropriate decisions.

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

As a result of the audit and control tasks carried out in 2011, 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 in most areas and that the tasks carried out by the Audit & Internal Control Department help to improve the system.

The Company's cooperation with Deloitte Advisory Sp. z o. o. as part of a project to implement an internal audit function at the Company also contributed to improvement of the system.

Assessment of the risk management system

During the reporting year, the Company implemented a formalised corporate risk management system developed in cooperation with Deloitte. The ERM (Enterprise Risk Management) system consists of the below-described documents identifying the concepts, objectives, organisation, principles and process of managing risk at the Company. The system covers all of the Company's 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. LW Bogdanka S.A. Corporate Risk Management Procedure,
3. LW Bogdanka S.A. Risk Register,
4. LW Bogdanka S.A. Risk Map,

5. LW Bogdanka S.A. List of Key/Significant Risks.

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.

In the identified risk areas, a register of the risks identified at all of the Company's organisation units was developed. The register covers 145 risks, described in detail in definitions and examples.

Subsequently, all of the Company's risk identified and included in the Risk Register were assessed by the Company's personnel (the managers of the organisational units to which the different risks were assigned). The purpose of the risk assessment was to prioritise the risks in terms of their significance for the Company's operation, for the implementation of the Company's business strategy and plans and for the achievement of its strategic goals. Each risk was assessed in two aspects: the effect of the risk materialising for the Company and the Company's exposure to the risk.

Each of the significant (key) risks was assigned to a risk owner at the level of the Company's senior management (General Manager, Chief Engineer, Head Engineer, Chief Economist, Authorised Representative, Department Manager) and to the relevant Management Board Member responsible for the Company's business area concerned.

In the opinion of the Supervisory Board, the Company has adopted and is in the process of implementing a corporate risk management system that complies with the highest applicable standards, i.e. with the ISO 31000 standard. A large number of the Company's personnel (the Management Board, Directors and Managers as risk owners) attended numerous training sessions and workshops intended to improve their knowledge of corporate risk management. For the purpose of implementing the corporate risk management system, the Company's Management Board appointed a Risk Coordinator 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. At the same time, 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 Company has taken measures aimed at implementing an IT system for risk management, which will certainly improve the speed, flexibility and effectiveness of the Company's corporate risk management system. 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, working to correctly identify and monitor significant threats to the achievement of the Company's goals.

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 2011, 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 published at www.lw.com.pl, in the Investor Relations tab.

The Supervisory Board positively assesses the cooperation with the Company's Management Board in 2011, as well as the administrative and organisational security of work of the Board and the Audit Committee.

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

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

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 2011.

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

1. Eryk Karski	Chairman of the Board	<i>[signature]</i>
2. Stefan Kawalec	Vice-Chairman of the Board	<i>[signature]</i>
3. Jadwiga Kalinowska	Secretary of the Board	<i>[signature]</i>
4. Ewa Pawluczuk	Member of the Board	<i>[signature]</i>
5. Andrzej Lulek	Member of the Board	<i>[signature]</i>
6. Adam Partyka	Member of the Board	<i>[signature]</i>

Bogdanka, 26 March 2012