DIRECTORS' REPORT ON OPERATIONS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2013 to 31 December 2013

BOGDANKA, MARCH 2014

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1 BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure and changes in the structure of Lubelski Węgiel BOGDANKA Group

As at 20 March 2014, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Wegiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent"), ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"), EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS") and RG Bogdanka Sp. z o.o. (hereinafter referred to as "RG Bogdanka") as the Subsidiaries.

The associated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report, i.e. 20 March 2014, LW BOGDANKA S.A. also held 24.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2 Information on the entities of the LW BOGDANKA Group

The subsidiaries Łęczyńska Energetyka Sp. z o.o. EkoTRANS Bogdanka and RG Bogdanka were included in the annual consolidated financial statements of the LW BOGDANKA Group for 2013 (hereinafter referred to as the Annual Consolidated Financial Statements) by the full consolidation method.

1.2.1 The Parent of the LW BOGDANKA Group

The LW BOGDANKA Group consists of Lubelski Węgiel BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o. and RG Bogdanka sp. z o.o., the subsidiaries.

Lubelski Węgiel BOGDANKA Spółka Akcyjna (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA" or "LWB").

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+48 (81) 462 51 00, +48 (81) 462 51 01
Fax:	+48 (81) 462 51 91
website:	www.lw.com.pl, www.ri.lw.com.pl
e-mail:	bogdanka@lw.com.pl
Industry Identification Number (REGON):	430309210
Tax Reg. No. (NIP):	713-000-57-84

Business activities

The scope of the Company's main business activity includes mining activities related to economic mining of hard coal and enriching excavated raw coal, sale of coal to consumers, and the protection and reclamation of mining areas.

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA S.A. are:

a) agriculture, forestry, hunting and fishery (Section A);

b) mining and production (Section B);

c) industrial processing (Section C);

d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D);

e) water supply; liquid and solid waste management; activities related to reclamation (Section E);

f) construction (Section F);

g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G);

h) transport and warehouse management (Section H);

i) activities related to lodging and catering (Section I);

j) information and communications (Section J);

k) finance and insurance (Section K);

l) real estate activities (Section L);

m) professional, scientific and technical activities (Section M);

n) administration and support activities (Section N);

o) education (Section P).

Supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Construction Ceramics Plant.

1.2.2 Subsidiaries and associated undertaking

A) Łęczyńska Energetyka sp. z o.o.

address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	+48 81 443 11 02, +48 81 462 55 53
Fax:	+48 81 443 11 01
Website:	www.lebog.com.pl
e-mail:	biuro@lebog.com.pl
Industry Identification Number (REGON):	004164490
Tax Reg. No. (NIP):	713-020-71-92

Share capital (as at 31 December 2013): PLN 82,677,000.00 divided into 82.677 shares of PLN 1.000.

Shareholding structure:

- 88.697% LW BOGDANKA S.A.
- 11.297% Łęczna Municipality
- 0.006% Puchaczów Municipality.

The business activities of Łęczyńska Energetyka Sp. z o.o. are: producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

Łęczyńska Energetyka Sp. z o.o. provides services to LW BOGDANKA S.A. involving supplying heat energy and conducts water/wastewater management.

Łęczyńska Energetyka Sp. z o. o. was established on 28 May 1990.

On 15 June 1990, the Company was registered with the commercial register under entry No. 1823 in section B by the District Court in Lublin, XI Commercial Division. The Company commenced its business activities on 1 July 1990 under the name of KOBO Sp. z o.o., taking over the activities of the mine's Power Engineering Department with respect to heat energy production at the boiler facility in Bogdanka as well as transmission and distribution of the energy to recipients in Bogdanka, Nadrybie and Stefanów and to the town of Łęczna.

As of 1 June 1992 the Company took over the operations of the Water and Wastewater Division.

Between 1994 and 1999 the Company expanded its activities as regards heat production and distribution to include local heat generation plants in Zawadów, Łęczna and Ostrów Lubelski.

As of 2 January 2000 the Company has also provided accommodation and catering services at the Kalnica resort.

In 2011 the Company's Management Board decided to suspend the activities at the resort and designate it for sale by a potential buyer (or buyers).

On 1 February 2001 the Łęczna Municipality made an in-kind contribution to the Company in the form of former ZEC Łęczna's assets in exchange for shares accounting for 23.33% of the Company's increased share capital.

Since 17 April 2001 the Company has operated under the business name of Łęczyńska Energetyka Sp. z o.o. in Bogdanka.

Under resolution No. 19 of 7 December 2004, adopted by the Extraordinary Shareholders Meeting, the Company's share capital was increased by PLN 40,000,000 by creating 40,000 new shares with a par value of PLN 1,000 per share. All the shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. 6026/2004) on 9 December 2004 and paid up in full in cash on 16 December 2004.

By virtue of Resolution No. 1 of 27 July 2006, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. No. 3148/2006) on 30 August 2006 in exchange for an in-kind contribution in the form of the right to perpetual usufruct of land and non-current assets to the total market value of PLN 2,618,477.

LW BOGDANKA's share in the share capital of Łęczyńska Energetyka Sp. z o.o. in Bogdanka accounts for 88.70%.

B) EkoTRANS BOGDANKA Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów,
Tel.:	+48 81 462 52 15
Fax:	+48 81 462 52 15
website:	-
e-mail	biuro@ekotrans-bogdanka.pl
Industry Identification Number (REGON):	06155187
Tax Reg. No. (NIP):	505-012-39-60

On 10 April 2013 the Parent established a limited liability company operating under the business name EkoTRANS Bogdanka Sp. z o.o. The Company's share capital stands at PLN 100,000 and is divided into 100 equal and indivisible shares with a nominal value of PLN 1,000 per share. All 100 shares with the total value of PLN 100,000 are taken up by the sole founding Shareholder, i.e. Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka and are paid up in full by means of a cash contribution to the amount of PLN 100,000.

EkoTRANS provides services to the mine with respect to management of spoil arising during coal- associated shale cleaning and washing.

C) RG „Bogdanka" Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów,
Tel.:	+48 81 462 50 86
Fax:	-
website:	-
e-mail:	poczta@rgbogdanka.pl

Industry Identification Number (REGON): 243255890

Tax Reg. No. (NIP): 627-273-54-05

On 2 July 2013 the Parent purchased 100 (one hundred) shares in Eltrans - Mining RG Sp. z o.o. with registered office in Chorzów, accounting for 100% of the share capital of Eltrans - Mining RG Sp. z o.o., including all rights, privileges and liabilities under the Shares. On the same day an Extraordinary Shareholders Meeting of the Company operating under the business name Eltrans - Mining RG Sp. z o.o. was held, adopting Resolution No. 3 which increased the amount of share capital from PLN 5,000 to PLN 500,000 by issuing 9,900 new shares with a nominal value of PLN 50 per share to be taken up by the sole shareholder, i.e. Lubelski Węgiel Bogdanka S.A. in Bogdanka.

Under Notary Deed Rep. A No. 2382/2013, due to the amendments introduced to the Articles of Association of Eltrans - Mining RG Sp. z o.o. with registered office in Chorzów, the Company shall now operate under the business name RG Bogdanka Sp. z o.o. with registered office in Bogdanka.

Share capital of RB Bogdanka Sp. z o.o. amounts to PLN 500,000.00 and is divided into 10,000 shares, PLN 50 each.

Shareholding structure: 100% Lubelski Węgiel Bogdanka S.A.

The business activity of the Company consists in providing of services, deliveries and mining works to LW BOGDANKA S.A.

Associated entity:

EKSPERT Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province

Tel.: +48 81 462 20 62

Fax: +48 81 462 20 62

website: -

e-mail: wkekspert@wp.pl

Industry Identification Number (REGON): 432693862

Tax Reg. No. (NIP): 505-000-15-99

EKSPERT Sp. z o.o. in Bogdanka, in which Łęczyńska Energetyka held 25 shares in the value of PLN 25,000, was liquidated on 19 June 2013 with resolution no. 11 of 19 June 2013 of the Extraordinary Shareholders Meeting of Ekspert Sp. z o.o.

On 3 July 2013, Ekspert Sp. z o.o. was crossed out from the National Court Register.

1.3 Organisational and capital affiliations of the Group

In 2013 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name Registry No.	Company's share in the share capital		Share capital	Core activities
	31 Dec. 2012	31 Dec. 2013 and 20 Mar. 2014		
Łęczyńska Energetyka Spółka z ograniczoną odpowiedzialnością in Bogdanka KRS 0000007317	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water

EkoTRANS Bogdanka Spółka z ograniczoną odpowiedzialnością Tax Reg. No. (NIP) 5050123960	0.00% (0 shares)	100.00% (100 shares)	PLN 100,000.00 divided into 100 shares of PLN 1,000	complex transport organisation and recovery of spoil arising during coal-associated shale washing and cleaning
RG BOGDANKA Spółka z ograniczoną odpowiedzialnością	0.00% (0 shares)	100% (10,000 shares)	PLN 500,000.00 divided into 10,000 shares	services, deliveries and mining works for LW Bogdanka
Kolejowe Zakłady Maszyn KOLZAM S.A. in Racibórz KRS 0000115564	24.41%	24.41%	PLN 750,000.00 divided into 150,000 shares of PLN 5.00	manufacturer of a rolling stock company in bankruptcy

1.4 Management system at LW BOGDANKA S.A. and its Group

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision by way of exercising rights conferred by the shares in subsidiaries, at the Shareholders Meetings of these companies. As at the day of submitting the Report, the Members of the Management Board of LW BOGDANKA S.A. held functions in the Supervisory Boards of subsidiaries, i.e.:

- in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o. – Zbigniew Stopa, President of the Management Board of LW BOGDANKA S.A.;
- in the Supervisory Board of Ekotrans Bogdanka Sp. z o.o. – Zbigniew Stopa, President of the Management Board of LW BOGDANKA S.A. and Krzysztof Szlaga, Member of the Management Board of LW BOGDANKA S.A. for Procurement and Investments;
- in the Supervisory Board of RG Bogdanka Sp. z o.o. - Krzysztof Szlaga, Member of the Management Board of LW BOGDANKA S.A. for Procurement and Investments.

Internal organisation of LW BOGDANKA S.A. is determined by Organisational Rules of the Company. In accordance with the Company's Articles of Association, each amendment to the Organisational Rules of the Company as a whole Company's enterprise requires a resolution of the Company's Management Board.

The Company governing bodies are:

a) the Management Board;

b) the Supervisory Board;

c) the General Shareholders Meeting.

Powers of the Company's governing bodies result from the provisions of the Commercial Companies Code as well as the Company's Articles of Association. Particular powers of the Company's individual governing bodies are determined by:

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;

b) for the Supervisory Board - Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;

c) for the General Shareholders Meeting - Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

The Company is headed by the Management Board of LW BOGDANKA S.A.

From 23 November 2012 to 4 March 2013 the Management Board consisted of four persons:

a) President of the Management Board

b) Vice-President of the Management Board, Trade and Logistics;

c) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;

d) Member of the Management Board, elected by the employees.

As a result of appointing new Members of the Management Board on 4 and 11 March 2013, the Management Board operated until the end of the 7th term of office in the following composition:

- President of the Management Board;
- Vice-President of the Management Board, Trade and Logistics;
- Vice-President of the Management Board, Economic and Financial Affairs;
- Vice-President of the Management Board, Chief Accountant;
- Member of the Management Board, Procurement and Investments;
- Member of the Management Board elected by the employees.

As at 31 January 2014 and as at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. of the 8th term of office was as follows:

- President of the Management Board;
- Vice-President of the Management Board, Trade and Logistics;
- Vice-President of the Management Board, Economic and Financial Affairs;
- Member of the Management Board, Procurement and Investments.

The Management Board members organise and supervise the organisational units within their own division. The organisational structure of the Company also includes the Production Director - Head of Mining Supervision in Mining Facility, (previously Chief Engineer – Head of Mining Supervision in Mining Facility), who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law. More information on the rules governing the appointment and functioning of the Management Board is provided in section 11.8.1.1 of the Report.

1.4.1 Changes in basic management rules of LW BOGDANKA S.A. and its Group

In order to make the rules of management of LW BOGDANKA S.A. more precise, the following steps were taken in 2013:

1. implementation plan for Social Corporate Responsibility strategy at LW BOGDANKA S.A. was adopted;
2. Instruction on managing equipment (other than non-current assets) at Lubelski Węgiel Bogdanka S.A. was introduced;
3. amended Instruction for performing stocktaking in Lubelski Węgiel Bogdanka S.A. was introduced;
4. amended Sales Terms and Conditions of Building Ceramics by Lubelski Węgiel Bogdanka S.A. were introduced;
5. amended "Sales Terms and Conditions of Coal" were introduced;
6. amended Code of Ethics at the Lubelski Węgiel Bogdanka Group was introduced;
7. uniform text of the "Instruction specifying a decision making procedure of the Company's Management Board and rules for preparation and circulation of documents submitted at the Management Board meetings" was introduced;
8. "Human Resources Policy" at Lubelski Węgiel Bogdanka S.A. was introduced;
9. Board for LW BOGDANKA S.A. strategy was appointed;
10. amended instruction for preparation and workflow of documents presented at the Management Board meetings was introduced;
11. changes to the composition of the Corporate Risk Management Committee were introduced;

12. rules for conducting proceedings for granting public procurement were updated, the Standing Tender Committee at Lubelski Węgiel Bogdanka S.A. in Bogdanka was appointed and the obligations of its members were determined.

The update of the currently applicable documents and the introduction of new ones is aimed at implementation of the following assumptions: increase of the Company's transparency, increase of competitiveness in service provision, facilitation of the cost control process, optimisation of Company's procurement process.

On 25 January 2013, the Company's Supervisory Board adopted resolutions with regard to:

1. appointing Mr Zbigniew Stopa to the Management Board of the 8th term of office as the President of the Management Board;
2. appointing Mr Waldemar Bernaciak to the Management Board of the 8th term of office as the Vice-President of the Management Board, Trade and Logistics;
3. Appointing Mr Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn as the Vice-President of the Management Board, Economic and Financial Affairs for the period until the end of the 7th term of office (effective as at 4 March 2013) and for the 8th term of office;
4. Appointing Mr Krzysztof Szlaga as the Member of the Management Board for Procurement and Investments for the period until the end of the 7th term of office (effective as at 11 March 2013) and for the 8th term of office;
5. Appointing Ms Krystyna Borkowska as a Vice-President – Chief Accountant, effective as at 4 March 2013, until the end of the 7th term of office.

Moreover, there were changes in the composition of the Management Board, specified in section 11.8.1.

On 4 July 2013, the Annual General Shareholders Meeting introduced amendments to the Articles of Association of Lubelski Węgiel BOGDANKA S.A. with regard to, among other issues, the Powers of the Company's governing bodies, in compliance with which the approval of the Supervisory Board shall be required for:

1. Acquisition, sale or production of non-current assets, construction in progress or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;
2. Establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
3. Conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association.

Further, a possibility was introduced to make advance dividend payments to the shareholders, for the dividend expected as at the end of a financial year, which may be paid out on the basis of a decision of the Management Board made upon approval of the Supervisory Board.

1.5 Information on branches (establishments) owned by the Group's Companies

Lubelski Węgiel BOGDANKA and the Subsidiary do not have any branches (establishments).

2 INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF THE LW BOGDANKA GROUP CONCLUDED IN 2013 AND FOLLOWING THE BALANCE SHEET DATE

The Group's Companies have no information about significant agreements concluded in 2013 between the shareholders. All significant agreements concluded by the LW BOGDANKA Group in 2013 and after the balance sheet date are described below.

In 2013 and after the balance sheet date, the Subsidiaries did not conclude any agreement significant for the operations of the LW Bogdanka Group.

2.1 Trade agreements

2.1.1 Conclusion of a Significant Agreement with ENEA Wytwarzanie S.A.

On 15 January 2013 LW BOGDANKA S.A. concluded an Annual Agreement for the Supply of Power Coal in 2013 (the Annual Agreement) with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1, which is attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010 referred to in Current Report No. 5/2010 of 5 March 2010, No. 44/2010 of 20 December 2010, and No. 31/2011 of 27 December 2011 (the Long-Term Agreement).

The Annual In binding upon the parties from 1 January 2013 to 31 December 2013, and concerns coal supplies for power units of ENEA Wytwarzanie S.A. in Kozienice, compliant with Long-Term Agreement No. UW/LW/01/2010. The value of the Annual Agreement concerning the supplies in 2013 at current prices amounts to PLN 755 million net. As a result of executing the Annual Agreement, the value of the entire Long-Term Agreement currently amounts to PLN 11,494 net, which is 0.26% less than specified in Current Report No. 31/2011 of 27 December 2011.

The Annual Agreement, which constitutes Appendix 4 to Long-Term Agreement No. UW/LW/01/2010, provides for the following liquidated damages: the Party to the Annual Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Other terms of the Annual Agreement do not differ from the market standards applied in agreements of this type.

This was announced by the Company in Current Report No. 3/2013 of 15 January 2013.

2.1.2 Conclusion of an Additional Agreement, an Annex to the Annual Agreement and an Annex to the Significant Agreement with ENEA Wytwarzanie S.A.

On 29 March 2013 the Management Board of LW BOGDANKA S.A. concluded an Annex to Long-Term Agreement for the supply of power coal No. UW/LW/01/2010 (the Long-Term Agreement) with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1.

The Annex provides for an increase in the volume of coal supplies to the power units of the ENEA Wytwarzanie Power Plant in Kozienice within the scope of the Long-Term Agreement in 2014, 2015 and 2016.

The Management Board also announced that on 29 March 2013 an Annex was concluded to the Annual Agreement for the supply of power coal in 2013 (the Annual Agreement) which is attached to the Long-Term Agreement as Appendix 4. The Company notified of the Annual Agreement in its Current Report No. 3/2013 of 15 January 2013.

The Annex specifies terms of coal supply for 2013 covered by the Annual Agreement which is valid from 1 January 2013 to 31 December 2013 and concerns basic coal supplies in 2013 for the ENEA Wytwarzanie Power Plant in Kozienice, in compliance with the Long-Term Agreement.

Moreover, the Management Board announced that on 29 March 2013 it concluded an Additional Agreement for the supply of power coal in 2013 (the Additional Agreement) with ENEA Wytwarzanie S.A. This is a separate agreement outside the scope of the Long-Term Agreement which increases the volume of supplies to the ENEA Wytwarzanie Power Plant in Kozienice as compared to the volume specified in the Long-Term Agreement.

The Additional In binding upon the parties from 1 April 2013 to 31 December 2013 and concerns additional coal supplies in 2013 for the purposes of the ENEA Wytwarzanie Power Plant in Kozienice. These supplies are in addition to those specified in the Annual Agreement.

The Additional Agreement provides for the following liquidated damages: A Party to the Additional Agreement that fails to collect or supply the contracted volume of coal on quarterly basis pays the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Each Party is entitled to terminate the Additional Agreement at one month's notice which commences on the first day of a month following a month in which notice was given. A Party terminating the Additional Agreement is obliged to pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Other terms and conditions of the Additional Agreement do not differ from the market standards applied in such agreements.

The value of the said Agreements (the Annual Agreement and the Additional Agreement) binding upon LW Bogdanka S.A. and ENEA Wytwarzanie S.A. in 2013 amounts to PLN 794 million net, while the value of the entire Long-Term Agreement effective for the supplies between 2011 and 2025 currently amounts to PLN 11,166 million net.

This was announced by the Company in Current Report No. 9/2013 of 29 March 2013.

2.1.3 Conclusion of an Annex to the Significant Agreement with Elektrownia Północ Sp. z o.o. for the supply of power coal

On 3 June 2013, the Management Board of LW BOGDANKA S.A. concluded an Annex to Long-Term Agreement for the supply of power coal (the "Agreement") with Elektrownia Północ Sp. z o.o. with registered office in Warsaw for the purposes of the projected power units of the power plant ("Unit I", "Unit II") in the Municipality of Pelplin (the "Power Plant"). The Agreement was the subject of Current Report No. 28/2011 of 12 December 2011.

As a result of the Annex conclusion, the Parties have agreed that the ultimate date for the Buyer to obtain debt financing for the purposes of the construction of Unit I and Unit of the Power Plant shall be 31 December 2013 (the ultimate date of financial closing). Therefore, the Agreement shall contain the following conditions subsequent:

a) The Agreement will be automatically terminated, in the part with respect to Unit I, on 31 December 2015, if the Buyer fails to notify the Seller on the financial closing for Unit I before that date;

b) The Agreement will be automatically terminated, in the part with respect to Unit II, on 31 December 2015, if the Buyer fails to notify the Seller on the financial closing for Unit II before that date;

Due to the Annex conclusion, other provisions of the Agreement do not change and do not differ from the market standards applied in typical Project Finance agreements.

This was announced by the Company in Current Report No. 20/2013 of 4 June 2013.

2.1.4 Concluding an Annex to the Significant Agreement with Zakłady Azotowe Puławy S.A.

On 10 June 2013, the Management Board of LW BOGDANKA S.A. signed an Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009, concluded between the Company and Zakłady Azotowe Puławy S.A. Group ("ZA Puławy") with registered office in Puławy.

The subject matter of the Agreement is the supply-sale of power coal to ZA Puławy. The Annex specifies a change in the volume of coal supplies for the purposes of ZA Puławy in 2013 and an amendment of liquidated damages.

As a result of concluding the Annex, the value of the Agreement amounts currently (without regard to possible increases, deviations and tolerance) to a total of PLN 1,052 million net (i.e. 0.57% less than in Report No. 55/2012).

As a result of concluding the Annex, the liquidated damages for the unperformed annual amounts of coal supply, specified in the Agreement, shall change as at 1 January 2014 and shall amount to 20% of the value of the unperformed supply volumes that comply with the agreement parameters (formerly 10%).

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The Agreement of 8 January 2009, which was disclosed in Current Report No. 29/2009, and amended by the Annex of 5 December 2011, which was disclosed in Current Report No. 26/2011, and by the Annex of 28 December 2012, which was disclosed in Current Report No. 55/2012, was deemed significant because it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 21/2013 of 10 June 2013.

2.1.5 Concluding an Annex to the Significant Agreement with PGNIG Termika S.A.

On 5 July 2013, the Management Board of LW BOGDANKA S.A., with registered office in Bogdanka, concluded an Annex to the Agreement on Sale/Purchase of Power Coal (the Agreement) with PGNIG Termika S.A. The Agreement concerns coal supplies provided by the Company in 2013÷2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013 and 14/2013 of 28 May 2013.

The Annex applies to supplies performed in 2014. Therefore, the condition subsequent, referred to in Current Report No. 14/2013, shall not apply.

As a result of concluding the Annex, the net value of the entire Long-Term Agreement amounts currently to PLN 973.42 million.

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the concluded Agreement to be significant is that it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 28/2013 of 5 July 2013.

2.1.6 Conclusion of an Annex to the Significant Agreement with EDF Paliwa Sp. z o.o.

On 31 October 2013, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka concluded an annex to the Long-Term Agreement on the sale of power coal (the "Agreement") of 19 July 2011 with EDF Paliwa Sp. z o.o., with registered office in Krakow. The Agreement was described in Current Report No. 21/2011 of 19 July 2011 and in Current Report No. 42/2012 of 1 August 2012.

As a result of concluding the Annex, the parties:

a) determined the terms of coal supply for 2014 (volume and price);

b) changed the rules of conducting sale of coal products between intermediary coal entities after the amendments of the Excise Duty Tax of 6 December 2008 and secondary regulations thereto.

Additionally, the Company's Management Board announces that due to the execution of the provisions of the Agreement, the term thereof has been extended for the next calendar year and the Agreement is in effect until 31 December 2016.

According to the Annex, the net value of the entire Agreement, excluding any additional options, possible increases, deviations and tolerance, amounts to PLN 681 million net, at current prices.

Other terms and conditions of the Agreement, as a result of the Annex conclusion, remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement, to which the Annex has been concluded, significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 37/2013 of 31 October 2013.

2.1.7 Conclusion of an Annex to the Significant Agreement with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group

On 18 November 2013, the Management Board of LW Bogdanka S.A. with registered office in Bogdanka concluded an annex to Agreement No. 3/W/2012 on the sale of power coal (the "Agreement") between the Company and Elektrownia Połaniec Spółka Akcyjna - GDF SUEZ ENERGIA POLSKA Group with registered office in Zawada 26, 28-230 Połaniec. The Agreement was referred to in Current Reports Nos. 41/2012 of 12 July 2012, 31/2013 of 30 August 2013 and 38/2013 of 31 October 2013.

The Agreement provides for the supplies of power coal for the purposes of Elektrownia Połaniec in 2013÷2018. The Annex specifies the terms and conditions of supplies in 2013÷2018. Since the Annex has been signed, the condition subsequent described in Current Report No. 38/2013 of 31 October 2013 will not apply.

The value of the entire Agreement after the Annex has been concluded amounts to about PLN 2.848 billion net, as per current prices.

As a result of concluding the Annex, the condition subsequent has been amended and reads as follows: If until 31 August 2015 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2018, the Agreement is terminated with effect at the end of a period, for which the Parties have set the price according to the provisions of the Agreement.

As a result of concluding the Annex, the liquidated damages for failure to collect or supply coal have been amended as follows: In the case of failure to supply or collect coal for reasons attributable to one of the Parties in the amount specified for a particular year, taking into account permissible deviations in a settlement for a given Year of the Agreement, the other Party is entitled to liquidated damages which shall account for 20% of the value of coal which has not been supplied or collected.

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 40/2013 of 18 November 2013.

2.1.8 Conclusion of an Annex to the Significant Agreement with ENERGA Elektrownie Ostrołęka S.A.

On 19 November, the Management Board of LW Bogdanka S.A. with registered office in Bogdanka signed Annex to Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010 (the "Agreement") with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5. The Agreement was the subject of Current Reports Nos. 43/2010 of 14 December 2010, 32/2011 of 28 December 2011, and 29/2012 of 29 May 2012.

As a result of concluding the Annex, the Parties agreed on the terms and conditions of supplies in 2013–2015.

In light of the above, the value of the entire Agreement, in force from 1 January 2011 to 31 December 2015, changes into about PLN 1,192 million net, as per the current prices.

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 41/2013 of 18 November 2013.

2.2 Other agreements relevant to the Company's operation

2.2.1 Conclusion of an Agreement with Caterpillar Mining sp. z o.o. and the volumes of trading with Caterpillar Global Mining Europe GmbH and its Subsidiaries per value of the Significant Agreement

On 16 April 2013, LW BOGDANKA S.A. entered into an agreement with Caterpillar Global Mining sp. z o.o. (ul. Fabryczna 6, 41-404 Mysłowice) for the supply of factory-new spare components for the ploughing systems made by BUCYRUS and CATERPILLAR, which operate in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion. In light of the above, the volumes of trading and the value of the agreements concluded between the Company and Caterpillar Global Mining Europe GmbH with registered office at Industriestrasse 1, 44534 Lünen, Germany (the "Supplier") and its subsidiaries within the last 12 months, i.e. until 16 April 2013, amounted to approx. PLN 266.6 million.

The Agreement of the highest value is the one concluded between the Company and the Supplier on 7 February 2013. It was the agreement for the supply of the longwall ploughing system EXW the mine in Bogdanka (the "Agreement").

The total value of the Agreement (the price of the ploughing system) amounts to EUR 47 million. Therefore, the estimated value of the Agreement calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 196.8 million.

The time limit for the Agreement performance – by 30 June 2014

1. The Client may charge the Supplier with liquidated damages if:

a. the Supplier delays the supply of a given part of the Subject Matter of the Agreement and a complete set of documents listed in the Agreement, excluding the equipment, subject to the following:
   - until 1 August 2013 in the case of the first part of the Subject Matter of the Agreement – in the amount of 0.5% of EUR 5.4 million for each commenced week of delay. However, in total not more than 5% of EUR 5.4 million;
   - until 30 June 2014 in the case of the second part of the Subject Matter of the Agreement – in the amount of 0.5% of EUR 41.59 million for each commenced week of delay. However, in total not more than 5% of EUR 41.59 million;

b. the Supplier delays the removal of any removable defects identified during the final acceptance of a given part of the Subject Matter of the Agreement for a period of at least 5 business days (setting another time-limit for removal of defects requires that appropriate arrangements be made between the Parties)

   – in the amount of 0.1% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter), for each commenced day of delay. However, in total not more than 5% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter);

c. the Supplier delays the removal of defects and/or failure of a given part of the Subject Matter of the Agreement covered by a quality guarantee, and delays the removal of defects and/or failure within the guarantee period to such an extent which renders it impossible to use a given part of the Subject Matter of the Agreement, in accordance with applicable law, within the period of the quality guarantee and warrantee for defects - in the amount of PLN 1,000 for each commenced hour of delay in relation to the set time-limits. However, in total not more than 2.75% of the net price, depending the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of Subject Matter);

d. the Client withdraws from the Agreement for reasons attributable to the Supplier - in the amount of 10% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).

2. The Supplier may charge the Client with liquidated damages in the amount of 10% of the net price, if the Supplier withdraws from the Agreement for reasons attributable to the Client, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).

3. The Parties may seek damages in excess of the liquidated damages specified in the Agreement.

The equivalent of EUR 41.59 million calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 174.2 million, while the equivalent of EUR 5.4 million is PLN 22.6 million.

Other terms and conditions do not differ from the market standards.

This was announced by the Company in Current Report No. 12/2013 of 17 April 2013.

2.2.2 Conclusion of an agreement with regard to bond issue programme and Bank's acquisition of two series of bonds

On 23 September 2013, Lubelski Węgiel Bogdanka S.A. concluded an agreement with regard to bond issue programme ("Agreement") with POLSKA KASA OPIEKI SPÓŁKA AKCYJNA ("Bank").

Under the Agreement, the Company intends to establish a bond issue programme ("Programme") which provides for bond issue by the Company in many series, pursuant to the provisions of the Agreement, up to the amount of PLN 300,000,000, which is the maximum allowed total amount of issued and not redeemed bonds. The aim for bond issue shall be obtaining funds for financing current Company operations and satisfying its investment needs.

The Bank intends to assume the obligation to acquire the bonds issued under the Program and to act during the issue as the guarantor, the depositary, the issue agent, the paying agent and the documentation agent.

The term of the Programme begins on the day signing the Agreement and ends on 31 December 2018. Under the Programme, the Company will be entitled to issue bonds with maturities from 3 to 5 years, indicated in the terms of the bonds. The nominal value of each bond series will be no lower than PLN 25,000,000.

The interest rate of both series is based on WIBOR 3M, increased by a fixed margin. Offers of the Bank's acquisition of the Bonds issued in series will be proposed in accordance with the Programme.

The Company established security for the benefit of the Bank in the form of: claim assignment agreement regarding an agreement with one of the Company's clients, a declaration of submission to enforcement pursuant to Article 777.1.5 of the Code of Civil Procedure and a power of attorney to an indicated bank account of the Company.

The Company published this information in Current Report No. 33/2013 of 23 September 2013.

On 27 September 2013, Bank POLSKA KASA OPIEKI SPÓŁKA AKCYJNA acquired two series of bonds issued pursuant to a resolution of the Company's Management Board of 26 September 2013 under a Bond Issue Programme, established pursuant to an agreement with the Bank.

In pursuance of the Programme, the Bank acquired 750 series BOGD01 300618 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each, and 750 series BOGD02 300318 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each. The aggregate amount of both bond series acquired by the Bank is PLN 150,000,000. Redemption date for the series BOGD01 300618 bonds is scheduled for 30 June 2018, and the redemption date for the series BOGD02 300318 bonds is scheduled for 30 March 2018.

The Company published this information in Current Report No. 34/2013 of 27 September 2013.

In pursuance of the Programme, on 27 December 2013, Bank POLSKA KASA OPIEKI SPÓŁKA AKCYJNA acquired another series of bonds issued under a Bond Issue Programme (the "Programme"), established pursuant to an agreement with the Bank. The Bank acquired 500 (five hundred) series BOGD03 300918 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each, and a total value of PLN 50,000,000 (fifty million zlotys). Redemption date for the series BOGD03 300918 bonds is scheduled for 30 September 2018.

The interest rate of the series is based on WIBOR 3M, increased by a fixed margin.

The Company published this information in Current Report No. 46/2013 of 27 December 2013.

2.2.3 Conclusion of an Agreement with Korporacja Gwarecka S.A.

On 25 November 2013, an agreement was concluded between LW Bogdanka S.A. and Korporacja, concerning the performance of works at the Company connected with production, extraction, mechanical processing, quality control and shipping of hard coal, conducting preparatory works, maintenance and renovation works and other works, specified in the description of the subject matter of the order, necessary for the performance of the above-mentioned works at LW Bogdanka S.A. (including in the Stefanów Field) on Saturdays, Sundays and holidays which are official holidays within the period of 12 months from 1 February 2014 to 31 January 2015.

The maximum value of the agreement may amount to approx. PLN 218.3 million net. It will depend on the scope of services contracted and performed.

The agreement provides for the following liquidated damages:

1. In the case the Contractor fails to achieve a minimum monthly wall mining progress specified in the Agreement in any monthly settlement period for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by PLN 20,000 for every running meter below the minimum monthly wall mining progress. Monthly wall mining progress shall be specified in a monthly report on the settlement of wall mining progress.

2. In the event that Contractor fails to achieve a minimum monthly progress of preparatory works in any monthly settlement period for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by an amount being a product of PLN 5,000 and the number of running meters below the minimum monthly progress of preparatory works.

3. In the event of non-performance or undue performance by the Contractor of services other than those specified in sections 1 and 2, for reasons attributable to the Contractor, then the fee payable to the Contractor shall be reduced by an amount equivalent to 200% of the net value of such a number of man-shifts as may prove necessary to duly perform uncompleted part of the task in question, calculated according to the rates set out in the Agreement. The number of man-shifts shall be estimated by the representatives of both Parties. The value of the non-performed or unduly performed part of the works, as well as the reduction of the Contractor's fee resulting therefrom, shall be specified by the representatives of both Parties in the report on the settlement of uncompleted parts of the tasks and settled together with the fee payable to the Contractor for the man-shifts worked on the basis of reports for a day on which the tasks assigned by the Client to the Contractor were not performed in full.

4. In the event the Client withdraws from the Agreement for reasons attributable to the Contractor, the Client shall be entitled to charge the Contractor with liquidated damages in the amount of 10% of the total maximum value of the Agreement.

5. Payment of liquidated damages does not exclude the possibility of the Client claiming damages from the Contractor on general terms if the incurred damage exceeds the value of liquidated damages.

The Agreement does not provide for a condition, or a time-limit.

Other terms and conditions do not differ from the market standards.

The Company published this information in Current Report No. 44/2013 of 25 November 2013.

2.2.4 Conclusion of an agreement with Caterpillar Global Mining Europe GmbH for the supply of another longwall ploughing system

On 17 February 2014, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka entered into an agreement with Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lünen, Germany, for the supply of factory-new longwall ploughing system for low seam mining, designed for operation in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion; complete and ready for assembly, and afterwards launch and start coal extraction; with software necessary for correct system operation.

The total value of the Agreement (the price of the ploughing system) amounts to EUR 39,750,000.00 net (thirty-nine million seven hundred and fifty thousand euros 00/100).

The time limit for the deliveries – 2014.

2.3 Agreements related to achieving share issue objectives

In 2013, the Company did not conclude any agreements related to achieving share issue objectives.

2.4 Transactions with related entities

In 2013 the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and sewage disposal, maintenance services and other,
- for sale of power coal and electrical energy,

- lease, rental and lending for use agreements,
- for heating of inlet air on shaft 2.2,
- for service and maintenance supervision,
- for the sale of a section of heat distribution network.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and RG Bogdanka were in effect:

- for the performance of mining works in cutting E-1 on level 960,
- for the performance of works in LW Bogdanka S.A. mine,
- for providing explosion works,
- lease, rental and lending for use agreements,
- for regeneration of used rollers.

In 2013 the following agreements concluded by LW BOGDANKA S.A. and EkoTrans Bogdanka were in effect:

- for disposal of non-dangerous waste (waste rock),
- lease, rental and lending for use agreements.

For more information please refer to the Company's Financial Statements, note 36.

3 FINANCIAL AND PROPERTY POSITION OF THE LW BOGDANKA GROUP

3.1 Basis of preparation of the annual consolidated financial statements

The consolidated financial statements of the LW BOGDANKA Group for the financial year from 1 January 2013 to 31 December 2013 were drawn up on the basis of the International Financial Reporting Standards and related interpretations announced in Regulations of the European Commission.

The consolidated financial statements were prepared according to the historical cost principle, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005.

The consolidated financial statements were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period in connection with applying amendments to IAS 19 "Employee Benefits."

The consolidated financial statements follow the same accounting principles (policies) and calculating methods as the latest approved annual consolidated financial statements, with the exception of:

change in the accounting principles related to the amendments to IAS 19 "Employee Benefits",

financial instruments measured at fair value in accordance with IFRS 13.

Detailed data regarding the impact of amendments to IAS 19 and application of IFRS 13 on the consolidated financial statements is disclosed in note 2.1a.

The Group applied the amendments to IAS 19 as of 1 January 2013 and recognises actuarial gains/losses arising from the measurement of post-employment defined benefit plans in other comprehensive income. Because of retroactive application of the amendments, the consolidated income statement and the consolidated statement of comprehensive income include restated data for the period ended 31 December 2012. The consolidated statement of changes in equity as at 31 December 2012 was changed accordingly. The changes did not have any impact on the consolidated statement of financial position as at 31 December 2012.

The consolidated financial statements for the year ended 31 December 2012 were restated to the conditions applicable currently based on the actuarial valuation prepared by an actuary for 2012.

Furthermore, in accordance with the amendments to IAS 1 "Presentation of Financial Statements" relating to the presentation of "Other comprehensive income", as of 1 January 2013 the Group modified the presentation of income and other comprehensive income in its consolidated financial statements by implementing two separate documents, i.e. consolidated income statement and consolidated statement of comprehensive income.

3.2 Information on current and forecast economic and financial position of the LW BOGDANKA Group with assessment of financial resources management

The Group's financial and economic position is stable. The financial performance, the value of generated cash flows and cash funds held show that the Group's financial position is good. The LW BOGDANKA Group has no problems with settling contracted liabilities. Financial resources management must be considered good, taking into account the processes going underway in the Group (implementation of the development strategy).

As at the date of drawing the information, there are no threats as to the Group's ability to settle contracted liabilities in future. Analyses of financial resources held and planned to be held are being conducted on an on-going basis.

Works for optimisation of the mining process (in terms of technology and maximising the output with the current geologic conditions) are systematically carried out. Works are pending with a view to making new excavations available in order to maintain continuity and achieve growth of extraction in next years. Next stages of the major investment programme of the Company are pursued in order to achieve the assumed strategic objectives.

3.2.1 Production, sale and inventories of coal

In the fourth quarter of 2013, the production of commercial coal in the Parent increased by nearly 23% compared to the same period of 2012, while four quarters of 2013 saw an increase in production by 7.20% compared to the same period of 2012.

Table 2 Commercial coal production by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 ['000 tonnes]

Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Q4 2013/ Q4 2012	4 Qs 2013/ 4 Qs 2012
2,107.02	1,717.18	8,345.30	7,784.79	22.70%	7.20%

Table 3 Structure of commercial coal production by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012

	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012
Fine coal	96.82%	98.80%	97.19%	98.20%
Nut coal	1.68%	0.08%	1.41%	0.13%
Pea coal	1.50%	1.12%	1.40%	1.67%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production was in the range 97% - 99%).

In the fourth quarter of 2013 the sales of coal grew by over 10% compared to the fourth quarter of 2012, while four quarters of 2013 saw an increase in sales by nearly 5% compared to the same period of 2012.

Table 4 Commercial coal sales by LW BOGDANKA S.A. for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 ['000 tonnes]

Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Q4 2013/ Q4 2012	4 Qs 2013/ 4 Qs 2012
2,062.18	1,866.20	8,147.15	7,795.51	10.50%	4.51%

Chart 1 Analysis of the extraction of coal

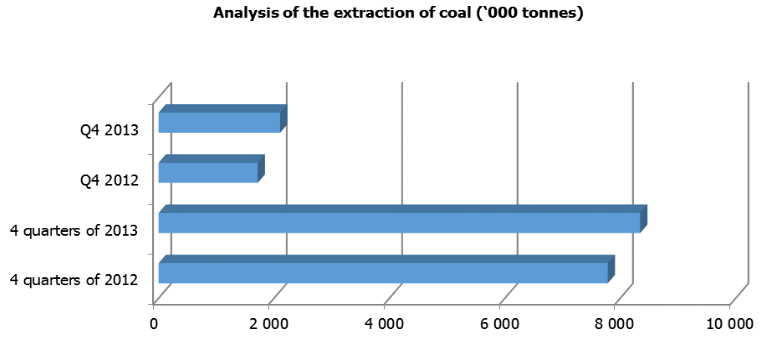
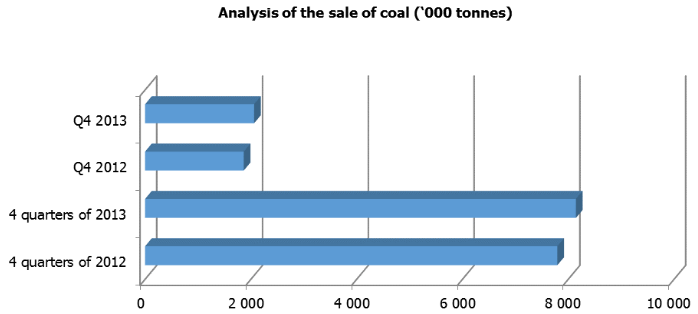


Chart 2 Analysis of the sale of coal

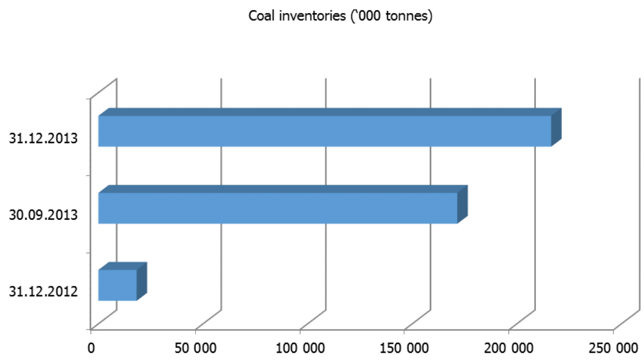


At the end of the fourth quarter of 2013 the level of coal inventories was 216,444,900 tonnes, which means an increase by 44,854,190 tonnes, i.e. by 26.14% compared to the level as at 30 September 2013; at the same time it was higher by 198,117,360 tonnes than as at 31 December 2012. The level of coal inventories presented at the end of the fourth quarter of 2013 corresponds to ca. eight days of commercial coal production by the Parent.

Table 5 Inventories of coal after 4 Qs 2013 and 4 Qs 2012 and as at 30 Sep. 2013 [tonnes]

Item	31 Dec. 2013	30 Sep. 2013	31 Dec. 2012	Change [%] (31 Dec. 2013/ 30 Sep. 2013)	Change [%] (31 Dec. 2013/ 31 Dec. 2012)
Inventories of coal	216,444.90	171,590.71	18,327.54	26.14%	1,080.98%

Chart 3 Coal inventories



Information on coal market in Poland is disclosed in section 2.1 of Directors' Report on Operations of LW Bogdanka S.A. in 2013.

3.2.2 Revenue and key customers

In the fourth quarter of 2013 the LW BOGDANKA Group generated revenue of PLN 481,531,000, which means an increase by nearly 9% compared to the fourth quarter of 2012; while in four quarters of 2013 the Group generated revenue of PLN 1,899,830,000, which means a year-to-year increase by over 3%.

The main source of the Group's revenue is the production and sale of power coal. In each of the compared reporting periods this activity generates nearly 95-96% of the Group's revenue. In the fourth quarter of 2013 the Group noted an increase in revenue from coal sales by over 8% compared to the fourth quarter of 2012. In four quarters of 2013 revenues from coal sales grew by nearly 3% compared to the same period of the previous year.

In the consolidated annual financial statements published by the Group, for presentation purposes, data in the consolidated annual income statement concerning revenue from coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the value indicated in the consolidated annual income statement for the period from 1 January to 31 December 2013 was adjusted by PLN 99,741,950, while in the same period of the previous year – by PLN 80,629,950.

Approx. 85% of coal sales (in terms of value) realised in the period from 1 January to 31 December 2013 (as in the same period of the previous year) were carried out on the basis of long–term trade agreements between LW BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., PGNiG Termika S.A., Zakłady Azotowe Puławy S.A., EDF Paliwa Sp. z o.o. and Elektrownia Ostrołęka S.A.

The Parent's customers, whose share in the Group's coal sales in 2013 exceeded 10% of the total revenue were:

- Elektrownia Kozienice S.A. – ENEA Group - approx. 40% share in the revenue
- PGNiG Termika - approx. 17% share in the revenue
- Elektrownia Połaniec S.A. – GDF Suez Energia Polska – approx. 10% share in the revenue

The Company has no formal links with the above mentioned entities.

Table 6 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 [PLN '000]

Item	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012	Change [%] (Q4 2013/ Q4 2012)	Change [%] (4 Qs 2013/ 4 Qs 2012)
Sales of coal	456,655	421,060	1,817,425	1,769,341	8.45%	2.72%
Sales of ceramics	1,204	1,742	5,124	6,749	-30.88%	-24.08%

Other activities	21,158	17,171	67,545	46,539	23.22%	45.14%
Sales of goods and materials	2,514	3,588	9,736	13,172	-29.93%	-26.09%
Total revenue	**481,531**	**443,561**	**1,899,830**	**1,835,801**	**8.56%**	**3.49%**

The revenue from other activities (which includes the revenue generated by subsidiaries) in the fourth quarter of 2013 amounted to PLN 21,158,000, compared to PLN 17,171,000 in the same period of 2012 (+23.22%). In 2013 overall this category of operations generated the total of PLN 67,545,000 compared to PLN 46,539,000 in 2012.

In the fourth quarter of 2013, the revenue from other activities accounted for 4.39% of the total revenue, compared to 3.87% a year before. A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the LW BOGDANKA S.A. for the benefit of some customers (this item has contributed primarily to the increased revenue in that group),
- revenue of Łęczyńska Energetyka,
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the fourth quarter of 2013 dropped from 0.81% to 0.52% compared to the fourth quarter of 2012. In the analysed period of 2013 and 2012, the dominant position in the amount was revenue from the sales of scrap (recorded by the Parent).

Table 7 Structure of the LW BOGDANKA Group revenue by product range in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012

Item	Q4 2013	Q4 2012	4 Qs 2013	4 Qs 2012
Sales of coal	94.84%	94.93%	95.66%	96.37%
Sales of ceramics	0.25%	0.39%	0.27%	0.37%
Other activities	4.39%	3.87%	3.56%	2.54%
Sales of goods and materials	0.52%	0.81%	0.51%	0.72%
Total revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The activities of the Group are primarily concentrated in Poland. During the analysed period of both 2013 and 2012, export sales constituted a fraction of revenue generated and concerned only sales of ceramics. The share of export in the total revenue did not exceed 0.1%.

Table 8 Geographic structure of revenue of the LW Bogdanka Group in Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012

[PLN '000]

Item	Q4 2013	% share	Q4 2012	% share	4 Qs 2013	% share	4 Qs 2012	% share
Domestic sales	481,343	99.96%	443,508	99.99%	1,898,783	99.94%	1,835,006	99.96%
Export sales	188	0.04%	53	0.01%	1,047	0.06%	795	0.04%
Total revenue	**481,531**	**100.00%**	**443,561**	**100.00%**	**1,899,830**	**100.00%**	**1,835,801**	**100.00%**

3.2.3 The LW BOGDANKA Group's suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA S.A. all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Company.

The principal suppliers for the LW Bogdanka Group include mainly companies that provide services and offer products characteristic for mining industry (drilling and reconstructions of workings, output dump, as well as supply of support systems for longwall galleries, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2013 and 31 December 2013, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

3.3 Provisions at the LW BOGDANKA Group

Table 9 Balance-sheet provisions in the LW BOGDANKA Group at the end of 2013 and 2012 [PLN '000]

Item	As at 31 Dec. 2013	As at 31 Dec. 2012 restated	Change 2013/2012 [%]
Employee provisions	200,029	192,668	3.82%
Real property tax liabilities (excavations)	27,846	9,502	193.05%
Provision for mine closure costs	85,278	89,861	-5.10%
Mining damage	12,933	13,470	-3.99%
Other	24,059	23,026	4.49%
TOTAL	**350,145**	**328,527**	**6.58%**

The total provisions as at 31 December 2013 amounted to PLN 350,145,000, which means an increase by 6.58% compared to the value as at the end of the year. Employee provisions increased by 3.82% on a year-to-year basis and amounted to PLN 200,029,000 as at the end of the financial year.

The balance of provisions in the fourth quarter of 2013 was PLN -23,767,000 compared to PLN 40,702,000 in the fourth quarter of 2012. The negative balance in 2013 results from updated provisions for employee benefits (in accordance with actuarial valuations held) and for mine closure costs. The balance of employee provisions in the fourth quarter of 2013 was PLN -30,324,000 compared to PLN +30,109,000 in the same period of 2012.

Table 10 Provisions in the LW BOGDANKA Group for Q4 2013 and Q4 2012 [PLN '000]

Item	Q4 2013	Q4 2012	Change 2013/ 2012	4 Qs 2013	4 Qs 2012	Change 2013/ 2012
Employee provisions (including subsidiaries)	-30,324	30,109	-	7,361	45,415	-83.79%
Real property tax liabilities (excavations)	15,087	-12,585	-	18,344	-7,085	-
Provision for mine closure costs	-12,908	12,227	-	-4,583	13,005	-
Mining damage	3,894	9,196	-57.66%	-537	8,110	-
Other	484	1,755	-72.42%	1,033	8,276	-87.52%
TOTAL	**-23,767**	**40,702**	**-**	**21,618**	**67,721**	**-68.08%**

3.3.1 Selected financial data

3.3.2 Group's revenue, costs, profit and loss

Table 11 Analysis of the consolidated income statement [PLN '000]

Item	Q4 2013	Q4 2012	Change % (2013 / 2012)	4 Qs 2013	4 Qs 2012	Change % (2013 / 2012)
Revenue	481,531	443,561	8.56%	1,899,830	1,835,801	3.49%
Costs of products, goods and materials sold, selling and administrative costs	356,362	382,527	-6.84%	1,444,031	1,440,401	0.25%
Profit on sales	**125,169**	**61,034**	**105.08%**	**455,799**	**395,400**	**15.28%**
Profit on sales margin (Gross margin)	*25.99%*	*13.76%*	*88.88%*	*23.99%*	*21.54%*	*11.37%*
Other income	1,545	-27,460	-105.63%	3,837	4,065	-5.61%
Other costs	2,137	1,142	87.13%	3,062	1,822	68.06%
Net operating profit/loss	**124,577**	**32,432**	**284.12%**	**456,574**	**397,643**	**14.82%**
Other net profits/losses	-7,333	16,007	-145.81%	-31,771	-8,426	277.06%
Operating profit (EBIT)	**117,244**	**48,439**	**142.04%**	**424,803**	**389,217**	**9.14%**
EBIT margin	*24.35%*	*10.92%*	*122.99%*	*22.36%*	*21.20%*	*5.47%*
EBITDA	**206,600**	**120,182**	**71.91%**	**754,941**	**689,958**	**9.42%**
EBITDA margin	*42.90%*	*27.09%*	*58.36%*	*39.74%*	*37.58%*	*5.75%*
Finance income	1,828	1,590	14.97%	7,267	11,833	-38.59%
Finance costs	6,312	5,085	24.13%	18,341	18,979	-3.36%
Share in (losses)/profits of subsidiaries	0	0	-	0	0	-
Profit before taxation	**112,760**	**44,944**	**150.89%**	**413,729**	**382,071**	**8.29%**
Pre-tax profit margin	23.42%	10.13%	131.19%	21.78%	20.81%	4.66%
Income tax	7,765	9,610	-19.20%	84,001	73,055	14.98%
Net profit for the financial year	**104,995**	**35,334**	**197.15%**	**329,728**	**309,016**	**6.70%**
Net profit margin	*21.80%*	*7.97%*	*173.53%*	*17.36%*	*16.83%*	*3.15%*
- attributable to Company shareholders	104,979	35,110	199.00%	329,417	308,602	6.74%

Chart 4 Analysis of consolidated income statement on individual levels of the Group's operation in 4Q

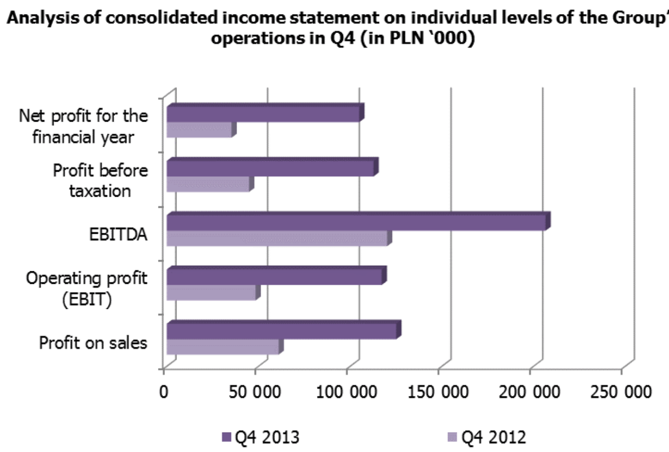
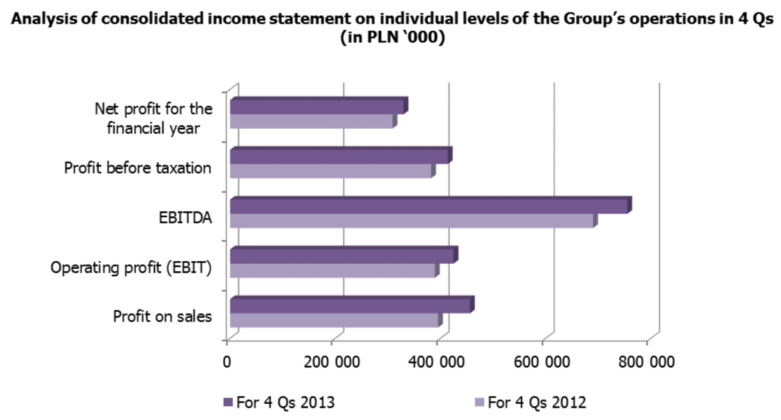


Chart 5 Analysis of consolidated income statement on individual levels of the Group's operation in 4 Qs



3.3.2.1 Revenue

The value of revenue for the fourth quarter of 2013 increased by almost 9% compared to the same period of the previous year and amounted to PLN 481,531,000. In twelve months of 2013, the Group recorded an increase in revenue by nearly 3.5% compared to same period of 2012 (it generated PLN 1,889,830,000 in 2013 compared to PLN 1,835,801,000 in 2012).

3.3.2.2 Costs of products, goods and materials sold, selling costs, administrative costs

In the fourth quarter of 2013 the costs of products, goods and material sold plus selling and administrative costs went down by 6.84% compared by the same period of the previous year and amounted to PLN 356,362,000. When data for the twelve months is analysed, the year-to-year change was +0.25%.

3.3.2.3 Profit on sales

The profit on sales in the fourth quarter of 2013 went up by 105% compared to the fourth quarter of 2012 and amounted to PLN 125,169,000, whereas in twelve months of 2013 the profit went up by over 15% compared to the same period of 2012.

3.3.2.4 Other income

In the fourth quarter of 2013 alone other income amounted to PLN +1,545,000 compared to PLN -27,460,000 a year before. The negative value on the income side recorded in the fourth quarter of 2012 is due to the recognition of the creation and release of a provision for liabilities to Mostostal Warszawa S.A. (until Q3 2012 the income and costs related to that provision were presented separately in the report, whereas in Q4 2012 these results were offset). In four quarters of 2013 the other income went down by 5.61% compared to the same period of 2012 (PLN 4,065,000) and amounted to PLN 3,837,000. The dominant item in the value for 2013 is income from released impairment losses (PLN 1,669,000) and received damages (PLN 1,057,000).

3.3.2.5 Other costs and other net profits/losses

In the fourth quarter of 2013 other profits/losses amounted to PLN -7,333,000, while in the fourth quarter of 2012 they equalled PLN +16,007,000, which means a change of PLN 23,340,000. In the entire 2013 the Group generated the other net loss of PLN -31,771,000 compared to PLN -8,426,000 in 2012. In connection with technical and economic analyses performed within the Group, a permanent impairment loss of assets was recognised in 2013 in the amount of PLN 26,708,000.

3.3.2.6 EBIT

The operating profit in the fourth quarter of 2013 amounted to PLN 117,244,000 and was higher by 142.04% compared to the fourth quarter of 2012, whereas EBIT for the twelve months of 2013 was higher by 9.14% than in the same period of the previous year. EBIT margin in the fourth quarter of 2013 was 24.35%, i.e. it was higher by 13.43 p.p. than in the fourth quarter of the previous year. When data for four quarters is analysed, an increase to 22.36% (+1.16 p.p.) in EBIT margin is observed.

3.3.2.7 EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the fourth quarter of 2013 went up by 71.91% compared to the fourth quarter of 2013 and amounted to PLN 206,600,000. Depreciation and amortisation in the fourth quarter of 2013 amounted to PLN 89,356,000 compared to 71,743 in the same period of 2012; while in four quarters of 2013 an increase in EBITDA of 9.42% was noted, with EBIT going up by 9.14%.

EBITDA margin the fourth quarter of 2013 was 42.90% and was higher than in the same analysed period of 2012. When data for 12 months of 2013 and 2012 is analysed, an increase in EBITDA margin (by 5.75%, i.e. by 2.16 p.p.) is noted, EBITDA for four quarters of 2013 was 39.74%.

3.3.2.8 Finance income

The finance income in the fourth quarter of 2013 amounted to PLN 1,828,000, which means an increase of ca. 15% compared to the same period of the previous year. In the entire 2013, the finance income went down by PLN 4,566,000 to PLN 7,267,000. Decreased income has been caused by lower levels of cash available averagely during the year within the Group, as well as the lowering of reference rates by the National Bank of Poland.

3.3.2.9 Finance costs

The finance cost for the twelve months of 2013 amounted to PLN 18,341,000 compared to PLN 18,979,000 in 2012 (decrease by 3.36%). The total indebtedness of the Group amounted to PLN 621,000,000 as at 31 December 2013 compared to PLN 441,000,000 as at 31 December 2012. In 2013 lower reference rates were in place; at the same time interest paid in relation to investing activity amounted to PLN 15,247,000 in 2013 compared to PLN 19,785,000 in 2012. In the fourth quarter of 2013 the finance costs amounted to PLN 6,312,000 and were higher by 24.13% than in the fourth quarter of 2012.

3.3.2.10 Profit before taxation

In the fourth quarter of 2013 the Group generated pre-tax profit which was higher by 150.89% than in the fourth quarter of 2012. In the twelve months of 2013 the Group generated pre-tax profit of PLN 413,729,000 compared to PLN 382,071,000 a year before – the pre-tax profit went up by 8.29%.

3.3.2.11 Net profit

In the fourth quarter of 2013 the Group generated net profit higher by 197.15% than in the fourth quarter of 2012 – it amounted to PLN +104,995,000 in 2013 compared to PLN +35,334,000 in 2012. And net profit for the twelve months of 2013 reached PLN 329,728,000, which means an increase by nearly 7% compared to the twelve months of 2012. The net result for the financial year attributable to the Company shareholders amounted to PLN 329,417,000 compared to PLN 308,602,000 for 2012.

3.3.3 The Group's operating profit without provisions and non-recurring items

The Group's operating profit for the fourth quarter of 2013 amounted to PLN 117,244,000 and was higher by 142.04% compared to the profit for the fourth quarter of 2012; the profit for four quarters of 2013 was higher by 9.14% on a year-to-year basis. Items significant for EBIT calculation included, among other things, a change in provisions and the balance of non-recurring items.

Table 12 Group's operating profit without provisions and non-recurring items for Q4 2013 and Q4 2012 and 4 Qs 2013 and 4 Qs 2012 [PLN '000]

Item	Q4 2013	Q4 2012	Change 2013/ 2012	4 Qs 2013	4 Qs 2012	Change 2013/ 2012
Revenue	481,531	443,561	8.56%	1,899,830	1,835,801	3.49%
Costs of products, goods and materials sold, selling and administrative costs	-356,362	-382,527	-6.84%	-1,444,031	-1,440,401	0.25%
Other income	1,545	-27,460	-	3,837	4,065	-5.61%
Other costs	-2,137	-1,142	87.13%	-3,062	-1,822	68.06%
Other net profits/(losses)	-7,333	16,007	-	-31,771	-8,426	277.06%

EBIT	**117,244**	**48,439**	**142.04%**	**424,803**	**389,217**	**9.14%**
EBIT margin	**24.35%**	**10.92%**	**122.99%**	**22.36%**	**21.20%**	**5.47%**
Adjustment for change in provisions	-23,767	40,702	-	21,618	67,721	-68.08%
Adjustment for non-recurring items (other operating income + other costs + other net profits/losses	7,925	12,595	-37.08%	30,996	6,183	401.31%
Adjusted EBIT	**101,402**	**101,736**	**-0.33%**	**477,417**	**463,121**	**3.09%**
Adjusted EBIT margin	**21.06%**	**22.94%**	**-8.20%**	**25.13%**	**25.23%**	**-0.40%**

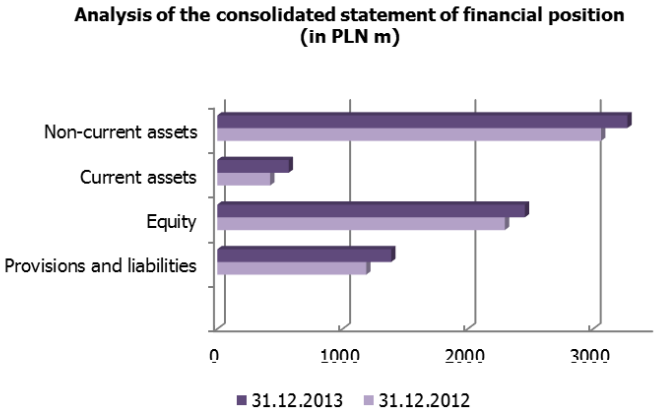
Adjusted EBIT (EBIT + change in provisions – non-recurring items) in the fourth quarter of 2013 reached PLN 101,402,000 compared to PLN 101,736,000 a year before (decrease by 0.33%). Adjusted EBIT for four quarters of 2013 was higher by 3.09% than EBIT for four quarters of 2012 and amounted to PLN 477,417,000.

3.3.4 Balance sheet

Table 13 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	31 Dec. 2013	31 Dec. 2012	Change % [2013/2012]
Total assets	3,844,130	3,485,156	10.30%
Return on Assets (ROA)	*9.00%*	*9.42%*	*-4.46%*
Non-current assets	3,264,030	3,063,653	6.54%
Current assets	580,100	421,503	37.63%
Equity	2,455,531	2,296,374	6.93%
Return on Equity (ROE)	*13.88%*	*13.92%*	*-0.29%*
Provisions and liabilities	1,388,599	1,188,782	16.81%

Chart 6 Analysis of the consolidated statement of financial position



3.3.4.1 Assets

The balance-sheet total as at 31 December 2013 went up by 10.30% to PLN 3,844,130,000 compared to the value as at 31 December 2012 (increase of PLN 358,974,000). Non-current assets increased by over 6%, which is largely the result of the investment programme carried out by the Parent. Current assets went up by over 37%, with the value of inventories going up by over 100%, trade and other receivables going up by ca. 3%, and cash and cash equivalents going up by over 75%. The increased value of total inventories in the Group is mainly the consequence of increased coal inventories of the Parent. The level of coal inventories presented at the end of the fourth quarter of 2013 corresponds approximately to eight days of commercial coal production by the Parent.

As at 31 December 2013, the return on assets (ROA) went down by 0.42 p.p. and amounted to 9.00% on the balance-sheet date.

3.3.4.2 Equity and liabilities

The equity went up by 6.93%. It was the result of distribution of profit for the previous year effected by the General Shareholders Meeting and adding net profit/loss for the twelve months of 2013 to equity.

Provisions and liabilities went up by over 16% compared to the value as at 31 December 2012: current liabilities increased by 94.62% (in accordance with repayment schedules, for 2014 the repayment of loans in the amount of PLN 421,000,000 is scheduled, which in consequence resulted in reclassification of non-current loans to current loans), while non-current liabilities decreased by 25.03% (PLN -193,477,000) – on one hand, loans became current (to be repaid in the upcoming 12 months), and on the other hand, the debt was increased by three tranches of bonds issued by the Parent, having the total value of PLN 200,000,000.

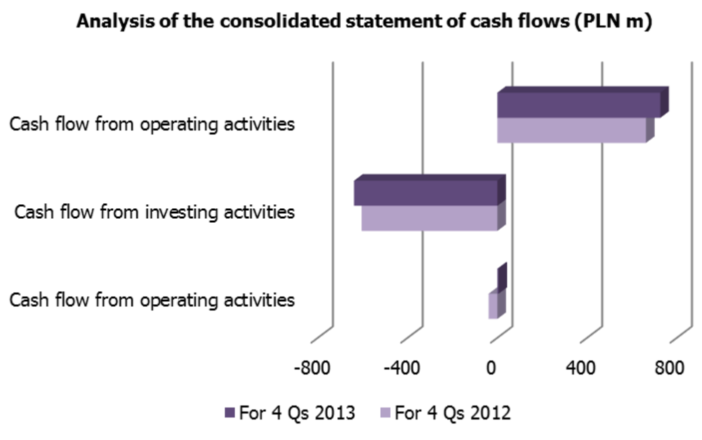
As at 31 December 2013 a decrease of 0.29% in return on equity compared to the end of 2012 was noted. The ratio as at 31 December 2013 was 13.88% compared to 13.92% as at 31 December 2012.

3.3.5 Cash flows

Table 14 Consolidated cash flows in 4 Qs 2012 and 4 Qs 2013 and Q4 2012 and Q4 2013 [PLN '000]

Item	Q4 2013	Q4 2012	Change [%] 2013/2012	4 Qs 2013	4 Qs 2012	Change [%] 2013/2012
Cash flow from (used in) operating activities	163,045	121,481	34.21%	726,043	661,729	9.72%
Cash flow from (used in) investing activities	-190,945	-209,998	-9.07%	-639,154	-604,737	5.69%
Cash flow from (used in) financing activities	39,394	-3,211	-	4,564	-39,261	-

Chart 7 Analysis of the consolidated statement of cash flows



In the fourth quarter of 2013 the Group generated net cash flow from operating activities higher by 34.21% than in the fourth quarter of 2012, in the period from 1 October 2013 to 31 December 2013 it amounted to PLN 163,045,000 compared to PLN 121,481,000 a year before. Cash flow from investing activities increased (in absolute terms) during the twelve months of 2013 by 5.69% (to PLN -639,154,000) compared to the same period of 2012. It was the result of increased expenses for acquisition of property, plant and equipment compared to 2012, in accordance with the pursued development strategy of the Parent.

In the period from 1 January to 31 December 2013 the Group recorded positive cash flow from financing activities in the amount of PLN 4,564,000 (the Company raised PLN 200,000,000 under the bond issue scheme, paid out dividend from profit for the 2012 financial year amounting to PLN 172,109,000, and repaid some of the loans taken).

3.3.6 Debt and financing structure of the LW BOGDANKA Group

Table 15 Debt ratios of the LW BOGDANKA Group

Item	31 December 2013	31 December 2012	Change [%] (2013/2012)
Overall debt ratio	36.12%	34.11%	5.89%
Ratio (debt plus employee liabilities)/EBITDA	1.09	0.92	18.48%
Debt to equity ratio	56.55%	51.77%	9.23%
Fixed capital to non-current assets ratio	90.38%	97.26%	-7.07%
Current debt ratio	21.04%	11.93%	76.36%
Non-current debt ratio	15.08%	22.18%	-32.01%

3.3.6.1 Overall debt ratio

The overall debt ratio as at 31 December 2013 went up by 5.89% compared to the end of 2012 and reached 36.12% - the share of borrowed capital in the overall financing sources of the Group increased.

The level of the Company's debts as at 31 December 2013 did not pose any risk to the Company's operation and ability to settle liabilities in a timely manner. In 2014 it is scheduled that the Parent repays the debts in the amount of PLN 421,000,000 (loans with PKO BP and PEKAO S.A.). In order to assure uninterrupted financing at appropriate level, the Parent plans to commence in 2014 the procedure of refinancing the above debts and to increase debt to cover expenditures for construction in progress.

3.3.6.2 Ratio (debt plus employee liabilities)/EBITDA

The ratio showing debt to EBITDA increased at the end of December 2013 by 18.48% and reached 1.09. In 2013, among other factors, the value of debt liabilities under issued bonds and the value of employee provisions increased.

3.3.6.3 Debt to equity ratio

The debt to equity ratio as at 31 December 2013 went up by 9.23% compared to the ratio as at 31 December 2012 and reached 56.55% - the increase in borrowed capital was higher than the change in equity.

3.3.6.4 Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 90.38% (as at 31 December 2013) compared to 97.26% (as at 31 December 2012) – in the analysed period the value of fixed capital (equity plus non-current liabilities less provisions) decreased, with non-current assets going up at the same time.

3.3.7 Liquidity ratios

Table 16 Liquidity ratios [days]

Item	31 Dec. 2013	31 Dec. 2012	Change [%] (2013/2012)
Current liquidity ratio	0.78	1.14	-31.58%
Quick liquidity ratio	0.63	0.99	-36.36%

In the period covered by the consolidated annual financial statements, the liquidity ratios of the Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. Bearing in mind the development strategy pursued by the Group, the liquidity ratios are to be considered correct.

3.3.8 Turnover ratios

Table 17 Turnover ratios [days]

Item	31 Dec. 2013	31 Dec. 2012	Change [%] (2013/2012)
Inventory turnover	23.3	13.9	67.63%
Debtors collection rate*	46.4	49.3	-5.88%
Creditors payment rate**	82.0	76.4	7.33%
Operating cycle (1+2)	69.7	63.2	10.28%
Cash conversion cycle (4-3)	-12.3	-13.2	-6.82%

* - Trade and other receivables

** - Trade and other liabilities

3.3.8.1 Inventory turnover

The inventory turnover ratio as at 31 December 2013 went up by ca. 68% compared to the ratio as at 31 December 2012, which is largely the result of an increase in the value of inventories.

3.3.8.2 Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 46.4 days (as at 31 December 2013), as compared to 49.3 days (as at 31 December 2012). The decrease in the rate is attributable to a decrease in the average level of other receivables, with growing Group's revenue.

3.3.8.3 Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 69.7 days, as compared to 63.2 days as at 31 December 2012. The time necessary for realising the Group's current assets got longer by 6 days on the average.

3.3.8.4 Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got longer by 5.6 days to 82 days, as compared to the end of 2012. In the analysed period the Group had higher current trade liabilities.

3.3.8.5 Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of –12.3 days was achieved as at 31 December 2013 compared to –13.2 as at 31 December 2012. The negative value of the cash conversion cycle means that the Group uses non-interest-bearing borrowed capital.

3.4 Information on financial instruments

The Parent is a party to one forward currency transaction. Security has been established for the performance of an agreement worth EUR 47 million for the supply and assembly of another wall ploughing system. The first transaction of EUR 4.3 million was settled on 2 September 2013, and the next one of EUR 1.08 million was settled on 15 November 2013.

On 27 September, as part of the "Bond Issue Scheme of up to PLN 300,000,000" the Parent issued, in two series, 1,500 bonds with a nominal value of PLN 100,000 each – the total value of the completed part of the scheme is PLN 200 million. This was announced by the Company in Current Reports No. 34/2013 and No. 46/2013.

In four quarters of 2013 the Group did not use any other financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of financial liquidity.

The Group is of the opinion that the risk associated with trade debtors is limited as it transacts only with customers of confirmed credit ratings (major customers are entities of stable financial situation). Further, the Group continuously monitors its customers' arrears in settling their payments.

The Group is of the opinion that the risk associated with trade creditors is limited as the Group continuously analyses inflows and outflows, and knows in advance what amounts will be due. Moreover, the cooperation with banks is good which causes that the Parent may obtain additional debt financing, in accordance with the long-term strategic plan.

3.5 Assessment of factors and untypical events affecting the Group's operations and the consolidated operating profit for the financial year

In 2013 no untypical factors and events occurred that may have influenced the Group's operations. Events that affected operations and financial results of the Group in the financial year 2013 or which may have influence thereon in the following years have been described in other sections of the Report.

3.6 Differences between financial results of the Group disclosed in the annual report and the published result forecasts for a given year

LW BOGDANKA S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2013.

3.7 Agreements concerning the Group's loans and borrowings

<u>Agreements concerning the Company's loans and borrowings</u>

In 2013 the Company had two signed loan agreements.

1. Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: on 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000, PLN 9,000,000 of which was repaid in 2011.

As at 31 December 2013 liabilities under the loan in PKO BP S.A. amounted to PLN 241,000,000.

Interest on the loan was: 3M WIBOR + 0.60 p.p., the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, constituting 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008÷2009, and potential repayment of existing debt. However, the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

Collateral for the granted loan is:

- a blank promissory note along with a promissory note declaration,
- clause on deduction from an account in PKO BP S.A.,
- transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

Annex No. 3 of 29 December 2009 introduces the Company's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or the Group deteriorates, resulting in a necessity of making impairment losses (according to the IAS) and special-purpose provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing the Company not to create the above mentioned impairment losses and provisions.

Repayment of the loan changed with Annex No. 3 of 29 December 2009 was to be carried out on the following dates and in the following amounts:

1) 2011 – PLN 50,000,000
2) 2012 – PLN 65,000,000
3) 2013 – PLN 70,000,000
4) 2014 – PLN 65,000,000.

And according to Annex No. 4 of 5 December 2011 was changed to stipulate the following dates and amounts:

1) 2011 - PLN 9,000,000,
2) 2014 – PLN 241,000,000.

As at 31 December 2011, the indebtedness of the Company on account of the loan taken in PKO BP S.A. amounted to PLN 241,000,000.

2. Agreement for "a working loan in PLN" concluded with Bank Polska Kasa Opieki S.A. on 23 December 2011; lending term until 31 December 2014.

The purpose of the loan is to finance current operations.

Loan tranches were granted on the following dates and in the following amounts:

1) PLN 50,000,000 on 27 December 2011,
2) PLN 50,000,000 on 30 December 2011,
3) PLN 50,000,000 on 30 March 2012,
4) PLN 50,000,000 on 29 June 2012.

Interest on the loan: WIBOR 3M increased by Bank's margin of 0.8 p.p. on an annual basis on the loan drawn. Front-end-fee in the amount of 0.1 p.p., on the loan tranche drawn. Interest rate on past due loan is variable – in the amount of statutory interest from the unpaid amount - and equals 13% p.a. on the date of agreement execution.

Collateral for the granted loan is:

- confirmed assignment of receivables in the minimum amount of PLN 250,000,000 during a year,
- a blank promissory note with a promissory note declaration,
- a power of attorney to bank accounts kept with the Bank,
- a statement on submission to execution.

The loan will be repaid as follows:

1) 2014 – PLN 180,000,000.

In 2013, four instalments of the loan were repaid totalling PLN 20,000,000. As at 31 December 2013, liabilities under the loan in Bank Polska Kasa Opieki S.A. amounted to PLN 180,000,000.

In 2013, the subsidiaries Łęczyńska Energetyka Sp. z o.o., EkoTrans Bogdanka Sp. z o.o. and RG Bogdanka Sp. z o.o. did not grant, contract or terminate any agreements concerning loans and borrowings.

3.8 Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s related entities

3.8.1 Granted guarantees:

In the period from 1 January 2013 to 31 December 2013, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiaries granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's equity.

In 2013 Lubelski Węgiel BOGDANKA S.A. did not provide any sureties or guarantees.

3.8.2 Received guarantees:

1. Guarantee to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits.

On 20 September 2012 LW BOGDANKA S.A. received from **PKO BP S.A. a bank guarantee of payment** no. 23 1020 3147 0000 8293 0020 9643 **up to the amount of PLN 19,000,000** for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits under agreement no. 808/IG/2012 of 24 August 2012. The guarantee is valid until 30 September 2021.

The liability under the guarantee will be reduced on a pro rata basis in the following cases:

1. the Bank makes payments to the Ministry of Environment, in which case the guarantee shall be reduced by the amount of such payments.
2. LW BOGDANKA S.A. makes payments to the Ministry of Environment in accordance with the conditions of the agreement, the receipt of which shall be confirmed by the Ministry of Environment in a statement.

Collateral for the guarantee is:

- assignment of contract receivables (change of collateral from transfer of funds in the amount of PLN 19,000,000 to the Bank's account),
- a set-off clause on setting off the amounts owed against the account of LW BOGDANKA S.A. with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee for the granting of the guarantee by PKO BP S.A. (0.1% on the date of signing the agreement) on the amount of liabilities of PKO BP S.A. for each 3-month period of validity of the guarantee, but not less than PLN 200; the Bank reserves the right to increase the rates of the fee in accordance with its assessment of a degree of increased risk,

Fee for increasing the guarantee amount of 0.1% of the amount of such increase, but not less than PLN 200.

2. Guarantee to secure payment to Caterpillar Global Mining Europe GmbH for the supply of the first part of a factory-new wall ploughing system

On 7 March 2013 the Company received a guarantee of payment from BRE Bank S.A., as a security for Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lünen, Germany up to the amount of EUR 4,871,755.19. Its purpose was to guarantee timely payment for the supply of the first part of a factory-new wall ploughing system, in accordance with Article 2.5.a of agreement no. 222/IZ/2013 of 7 February. The guarantee was valid until 1 November 2013.

Collateral for the guarantee was:

- a promissory note with a promissory note declaration,
- assignment of receivables under a trade contract with Zakłady Azotowe Puławy S.A.

Other contractual commitments:

- settlement of the contract with Zakłady Azotowe Puławy S.A. through the account with BRE,
- external inflows to the account with BRE in the amount of PLN 10 million on a month-average basis,
- maintenance of net profit during the entire term of the guarantee.

Guarantee costs:

- front-end fee – 0.1% of the guarantee amount, payable on a one-off basis within 7 days from the date on which the guarantee is granted,
- fee on the Bank's commitment under the granted guarantee – 0.075% of the committed amount, for each commenced 3-month period, payable in advance for each period.

Liquidated damages (in the event of default on contractual obligations) – commitment fee is increased to 0.15%.

3. Guarantee to secure liabilities in connection with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits

On 6 June 2013 LW BOGDANKA S.A. received from PKO BP SA a payment bank guarantee no. 23 1020 3147 0000 8596 0024 8054, up to the amount of PLN 1,500,000 for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities under agreement 894/I/IG/2013 for making available the use of geological information on "Lublin-K-6-7" and "Lublin K-3". The guarantee is valid until 30 September 2021.

Collateral for the guarantee is:

- transfer of funds in the amount PLN 1,500,000 to the Bank's account until the secured liability is paid in full,
- a set-off clause on setting off the amounts owed against the accounts of LW BOGDANKA S.A. with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee on the amount of the granted guarantee amounting to 0.10% of the amount of the granted guarantee for each commenced 3-month period of the guarantee term.
- other costs arising from the table of fees and charges, if any.

4. Guarantee to secure payment to Caterpillar Global Mining Europe GmbH for the supply (loco mine in Bogdanka) a factory-new wall ploughing system

On 25 July 2013 LW BOGDANKA S.A. received from PKO BP S.A. a foreign trade bank guarantee no. 40 1020 3147 0000 8196 0025 4540, in the amount of EUR 37,428,244.81, to secure the liability to Caterpillar Global Mining Europe GmbH Industriestrasse 1, 44534 Lunen, Germany, under an agreement for the supply (loco mine in Bogdanka) a factory-new wall ploughing system, agreement number 222/IZ/2013 of 7 February 2013. The guarantee is valid until 29 April 2015.

Collateral for the guarantee is:

- assignment of receivables in the amount of PLN 200,000,000,
- a set-off clause on setting off the amounts owed against the current account kept with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee for handling a request for guarantee is equal to 0% of the guarantee amount,
- fee for the granting of the guarantee is equal to 0.05% of the guarantee amount, but not less than PLN 300 (the fee will be collected for each commenced 3-month period on the amount of the granted guarantee or on the current balance of the granted guarantee),
- fee for the granting of a guarantee differing from the standard template at PKO BP is equal to PLN 0,
- fees and charges, if any, for other services not listed in the agreement, connected with handling of the guarantee.

Additional arrangements:

The guarantee amount will be reduced by EUR 29,942,595.85 to EUR 7,485,648.96 after the lapse of 30 days from the date of payment of 80% of the price for the supply of the Second Part of the Agreement Subject Matter, not later than on 12 October 2014.

3.9 Information on financial instruments

The Parent is a party to one forward currency transaction. Security has been established for the performance of an agreement worth EUR 47 million for the supply and assembly of another wall ploughing system. The first transaction of EUR 4.3 million was settled on 2 September 2013, and the next one of EUR 1.08 million was settled on 15 November 2013.

On 27 September 2013, as part of the "Bond Issue Scheme of up to PLN 300,000,000" LW BOGDANKA S.A. issued, in two series, 1,500 bonds with a nominal value of PLN 100,000 each – on 27 December 2013, the Company issued another 500 bonds with a nominal value of PLN 100,00 each - the total value of the completed part of the scheme is PLN 200 million. This was announced by the Company in Current Reports No. 34/2013 and No. 46/2013.

In four quarters of 2013 the Group did not use any other financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of financial liquidity.

The Group is of the opinion that the risk associated with trade debtors is limited as it transacts only with customers of confirmed credit ratings (major customers are entities of stable financial situation). Further, the Group continuously monitors its customers' arrears in settling their payments.

The Group is of the opinion that the risk associated with trade creditors is limited as LW BOGDANKA S.A. continuously analyses inflows and outflows, and knows in advance what amounts will be due. Moreover, the cooperation with banks is good which causes that the Group may obtain additional debt financing, in accordance with the long-term strategic plan.

3.10 Overview of significant off-balance sheet items of the Group in subjective, objective and value terms

In 2013 there were no off-balance sheet items.

4 INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE LW BOGDANKA GROUP'S OPERATIONS

4.1 The Group's development strategy and its policy on development directions

4.1.1 LW BOGDANKA S.A.'s development strategy

In 2013–2020, the Company plans to achieve, among others, the following strategic objectives:

- to complete its investment process aimed at doubling the production capacity of the mining plant to approx. 11.5 million tonnes of commercial coal in 2015;
- to make additional investments in upgrading its shaft 1.5 in Nadrybie to enable the Company to increase its net production capacity to approx. 12 million tonnes in 2018;
- to double the mine's resources and lifetime to around 2050 by obtaining a licence for and utilising new promising areas (increasing the mine's recoverable reserves from approx. 237 million to approx. 450 million tonnes);
- to strengthen the Company's well-established position as the main supplier of coal, particularly to the commercial power industry by achieving a 20% share in sales of power coal in Poland in 2015, compared to approx. 14% in 2012;
- to continue as the leader in effective mining, while reducing the Company's unit mining cash cost by 15% by 2017 compared to the level in 2012, in real terms;
- to continue as the leader in innovative technical solutions by implementing a Smart Mine project.

In order to pursue their strategy, the Company undertook a number of activities with regard to optimisation of the production process, costs, outsourced services and human resources management.

The Company estimates that the above strategy will require an average annual expenditure of approx. PLN 600 million in 2013÷2020, including:

- approx. PLN 250 million per annum in development capex to support increased production and productivity;
- approx. PLN 350 million in repeatable opex to maintain the Company's mining levels, upgrade its existing working pits and infrastructure.

The Dividend Policy that is part of the approved Strategy for 2013÷2015, provides for profit distributions to shareholders in the Company equal to 60% of the Company's consolidated net profit.

The above level of dividend will allow the Company to use a portion of its profit to co-finance its development expenditure on the one hand and to ensure a return of investment in its shares for its shareholders by making dividend payments at an above-average level in the coal mining industry on the other.

The Management Board's recommendation regarding dividend payments may be affected by changes to the assumptions relating to:

- the Company's development and its plans of further expansion;
- the implementation of the Company's investment plan;
- the Company's plans to maintain its liquidity at appropriate levels;

and to

- the net profit disclosed in the Company's separate financial statements;
- the planned investment and other capital expenditure;
- the current possibilities and costs of obtaining debt financing;
- the adoption, by the Company's General Shareholders Meeting, a resolution on a dividend level different from that recommended by the Management Board;
- other factors materially affecting the Company's financial standing.

4.1.2 Development strategy of Łęczyńska Energetyka Sp. z o.o.

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2017:

<u>1) Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.</u>

The Water Treatment Station, using the water that will come from draining the mine, will be producing potable water, water to make up for heat network losses, and water to make up for losses in the cooling cycle and in the water and steam cycle of the Heat and Power Station being designed.

The Water Treatment Station will be situated in the area of the existing liquid waste treatment plant, which will still be operated, whereas its final section will be situated in the existing water softening building adapted to new purposes.

The first stage of the investment (construction of the Water Treatment Station for the existing infrastructure) will be financed from own funds and third-party funds, and the second stage – related closely with the extension of the heat plant into heat and power station – will be financed with third-party funds.

In the period between April and December 2013 the Company conducted a tendering procedure with regard to the first stage of the investment. In December 2013 the Company concluded a contract for the execution of a turnkey water treatment plant construction project to meet the needs of the existing infrastructure. The net value of the contract amounts to PLN 33,225,550.61 and the facility is expected to be put to use by the end of May 2015.

2) Construction of a warehousing and garage facility in Bogdanka.

The construction of a warehousing and garage facility in Bogdanka will improve the storage conditions in the warehouse and provide a better space for keeping heavy duty machinery and company cars. The work on that investment commenced in August 2013. The net value of the whole project amounts to PLN 2,660,000.00 and the work is scheduled for completion by the end of July 2014.

3) Feasibility study concerning the construction of a 69 MW_t and 77 MW_e power unit with the required auxiliary installations.

Detailed economic, financial and technical analyses are currently being carried out regarding this venture with a view to enabling the Company's management and owners to reach the decision (by the end of August 2014) on the future of that investment.

4) Modernisation of Bogdanka-Łęczna heat distribution network.

Modernisation of the heat distribution network at Bogdanka-Łęczna section will mean replacement of the existing insulation at the heat supply main by the new insulation layer, of higher thermal protecting parameters (lower thermal conductivity). Execution of this task will add to reduction of loss during transmission of thermal energy at this section.

4.1.3 Development strategy of EkoTrans Bogdanka Sp. z o.o.

In 2014 and onwards the Company is planning to conduct business operations related to mining waste management. The Company aims to recover and recycle nearly 2.5 million tons of waste generated by dry and wet coal processing annually.

4.1.4 Development strategy of RG Bogdanka Sp. z o.o.

The Company conducts and will continue to develop its operations involving preparatory works for the Parent.

4.2 The LW BOGDANKA Group's investments

4.2.1 Investments in 2013 and the plan for 2014

Table 18 Implementation of investment projects in 2013 and the plan for 2014, as divided into projects [PLN '000]

Investment projects		Plan 2013	2013 implementation	Plan 2014
Gr. 1	**Development investments (including MCPP, central air-conditioning, technical infrastructure)**	76,442	84,406	62,951
Gr. 2	**Replacement investments**	57,105	81,178	49,506
A	Modernisation and repairs of machines and devices	17,975	38,297	13,430
B	Building and modernisation of structure and installations	39,130	42,881	36,076
Gr. 3	**Environmental protection**	10,353	16,999,	11,610
Gr. 4	**Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields**	299,003	268,849	238,651
Gr. 5	**Purchase of machines and devices**	181,040	114,825	322,830
A	Purchase and installation of panel complexes	74,175	23,416	247,259
B	Purchase of new machines, devices and ready products	106,865	91,409	75,571
	Total PARENT:	**623,943**	**566,257**	**685,548**
	Łęczyńska Energetyka	11,860	14,375	22,705
	RG Bogdanka	0	270	0
	EkoTrans Bogdanka	0	3	0
	Total LW BOGDANKA Group	**635,803**	**580,905**	**708,253**

The main objective of the investment plan of LW Bogdanka S.A. for 2013 was to continue commenced tasks, aiming at doubling the output in 2015, as compared to 2011.

The capital expenditure for 2013, amended after the first half of 2013 in the consolidated interim financial statements of the LW BOGDANKA Group for the first half of 2013, published on 29 August 2013, was planned to amount to PLN 623,943,000, whereas it amounted to PLN 566,257,000, i.e. 90.75% of the plan's value.

4.2.2 The Parent

4.2.2.1 Investment execution in 2013

In 2013, the following works were performed:

Gr. 1 Development investments

A. Technical infrastructure

Central air-conditioning system of the Stefanów Field

The underground air conditioning system was extended, the power of the installations in the surface air conditioning stations was increased from 5 MW to 6 MW, together with the system of controlling the distribution of chilled water and the network of underground air conditioning pipelines was extended in field VI in Nadrybie and in field VII in Stefanów.

B. Extension of the Mechanical Coal Processing Plant

The design works were continued in connection with the extension, target installation and equipment of the commercial coal storage area in LW Bogdanka S.A.

The extension of the MCPP processing capacity from its current level of 1,200 up to 2,400 Mg/h was continued. In 2013, in connection with a series of additional and replacement works, an annex to an agreement was signed, changing the deadline for performing the subject of the agreement and an agreement was concluded on performing additional works.

Stage I – completed and put into operation with final and valid decisions of the Director of the Regional Mining Authority (*Okręgowy Urząd Górniczy*). The trial run of the machinery, equipment and installations was completed.

Stage II – the construction and assembly works were completed, and the assembly of machines, devices and technological installations was in progress. A steel structure of auxiliary facilities was installed, the linings of facilities were being installed, finishing construction works were in progress, as well as the assembly of sanitary and electrical installations and the assembly of machinery, devices and technological installations.

Extension of the coal storage area

The design works were continued in connection with the extension, target installation and equipment of the commercial coal storage area in LW Bogdanka S.A.

C Other development investments

Starting the extraction of stone through shaft 1.5 in the Nadrybie Field,

The Company prepared a multi-variant concept of technical and technological solutions for stone transportation. The documentation and design works were continued.

Central air-conditioning system of the Bogdanka Field

I. On the basis of the developed concept, a tender for designing and executing the investment was announced and completed (apart from the provision of the pipelines for the initial circulation in shaft 1.2 and at level 960, and delivery and installation of a three-chamber PES feeder). Construction designs, executive designs of the surface area of the installation, and the underground technical designs were prepared, the permit for construction was obtained, and the construction works started.

II. On the basis of the design, a tender for delivery of the elements for construction of the water preinsulated and non-insulated DN 250 pipelines for central air conditioning in shaft 1.2 and at level 960, was announced and completed. In shaft 1.2 the main support structure was installed at level 900, and the installation of pipes was started below level 900 up to level 960.

Integrated production management system

The underground radio communication system was developed in the Stefanów Field, and the facility GPS supervision system was extended in LW Bogdanka S.A.

Extension of the mine with new extraction field

The Company obtained licence No. 12/2013p for exploration of hard coal deposits in the "Lublin K-3" area – the agreement was concluded with the State Treasury. An agreement was signed for drilling an exploratory ST-1 borehole up to the depth of 990 meters underground, for the purpose of recognizing the deposits of hard coal in the "Lublin K-3" area. Payments were made for the geological information and mining usage of OG Cyców.

Gr. 2 Reconstruction investments

A. Modernization and repairs of machinery and equipment

Two suspended Bevex diesel locomotives, two Scharf diesel tractors, and an AM-75 cutting machine were modernised, and the modernization of conveyors was in progress. The renovation of the AM-75 cutting machine, 2 items of MR 34X Ex-S cutting machines and 3 items of JOY 4LS longwall cutting machines was conducted so were periodic renovations of 17 items of coal wagon carts.

B. Construction and modernization of buildings and installations (without limitation)

Railway investments

The device of automatic passage signalling of the SSp SPA-41 type was installed in the railway crossing on 7.928 km, and installation of the STRAIL crossing surface in the railway crossing on 20.280 km of the Bogdanka – Jaszczów lay-by.

Switching station and 110/6kV station facilities

Works of stage A and B of modernization of the GSTR 110/6kV station in Bogdanka were completed with regard to: field 1, 2 and 3 and the T-4 transformer station; installation of section C of the 6kV switching station; renovation of the building of the station affiliated to section C of the 110/6kV switching station. There were reconstructed the sections of three overhead 110/6kV power lines in the area of the GSTR station in Bogdanka.

Gr. 3 Extension of the mining landfill in Bogdanka

The second phase of works was started based on the concluded agreement. 6BK, 7BK, 8BK belt conveyors, the 16K mobile conveyor, PTP-2 conveyor in modernized version (without a drive) were delivered and assembled. The purchasing of lands for the construction of the "Szczecin" reservoir was continued.

Gr. 4 - Building and modernization of workings in the Bogdanka, Nadrybie and Stefanów Fields

2013 saw an ongoing cross-cut of seams 382 and 385/2, 391 for starting new mining longwalls.

As for the preparatory workings in the Bogdanka Field, the drilling of the 1/II/385 haulage heading was continued, the N-2 cross heading, the N-4 cross cut was executed, and the following workings were started:

Longwall workings:

The drilling of the 6/VII/385 over-panel heading was completed, and the drilling of new workings was started: the 5/VII/385 under-panel heading and 4/VII/385 under-panel heading for making access to field VII. The drilling of the 1/VIII/385 under-panel heading and 2/VIII/385 under-panel heading was completed, and the drilling of the 3/VIII/385 under-panel heading was started for making access to field VIII.

The drilling of the 7/IV/385 under-panel heading was completed, and the drilling the new 7/IV/385 and 8/IV/385 over-panel headings was started in field IV in Bogdanka.

In field VI in Nadrybie the 3/VI/385 under-panel heading was completed and the drilling of the 3/VI/385 over-panel heading was started, and in field II in seam 382 in Nadrybie the 4/II over-panel heading was completed.

In field I seam 385/2 in Bogdanka the drilling of the 1/II/385 over-panel heading and 1/II/385 under-panel heading was started.

The redevelopment of mining workings was continued. In total 1,762.8 meters of workings were redeveloped.

Gr. 5 Purchases of machines and devices

A <u>Purchases and assembly of panel complexes</u>

In 2013 an agreement on purchasing a high-duty coal-ploughing system for low seams was concluded. The purchases are executed in parts:

a) 1st stage of the agreement covers the extension of wall complex No. 2 by 55 running meters

b) 2nd stage of the agreement covers the purchase of factory-new wall complex No. 3 for 250 running meters of the wall.

In 2013 the 1st stage of the agreement was executed – coal-ploughing complex No. 2 for wall 6/VII/385 was extended. The wall was started in November. In 2014 the 2nd stage of the agreement will be executed for wall No. 3/VI/385.

B <u>Purchases of machines, devices and finished goods</u>

Purchase and assembly of new machines and devices – the machines and devices for the total amount of PLN 66,333,600 were purchased and assembled. The most important ones included: suspended diesel locomotives, track diesel locomotives, ventilation stoppings, conveyor belts, conveyor feeders, sifters, cooling devices, roadheading machines, self-propelled drilling and bolting carts.

Purchases of finished goods – finished goods worth PLN 25,075,500 were purchased. The most important ones included: ready-made transportation devices (braking trolleys, hoists, containers, bogies for excavated material, a fire fighting car), hydraulic pumps and aggregates, electric devices (transformer stations, engines, counters), fans.

4.2.2.2 Plan for 2014

The planned investment outlays for 2014 amount to PLN 708,253,000.

Gr. 1. Development investments

Extension of the Mechanical Coal Processing Plant

- haulage of excavated material from shaft 2.1 – development of the designs of constructing a storage reservoir for raw coal,
- extension of the MCPP – outlays on construction and assembly works.

In the first quarter 2014 it is planned to complete the finishing works of facilities, including the installation works, and to complete the assembly of machines, devices and technological installations. In the second quarter 2014 it is planned to conduct the technical acceptance procedure for the construction facilities, and to conduct the start-up of machines, devices and technological installations. In July 2014 it is planned to conduct a start-up of the technological line (machines, devices and technological installations), which will allow the final acceptance report to be signed, on 31 August 2014, with respect to the subject matter of the agreement. According to the data as of the day of preparing the Report, there are no delays that might affect the completion of the investment on 31 August 2014.

- extension of the coal storage area – there are planned the outlays on construction and assembly works,
- starting the extraction of stone through shaft 1.5,
- central air-conditioning system of the Bogdanka Field,
- integrated management system,
- extension of the mine with a new extraction field – research and documentation works.

Gr. 2. Reconstruction works

A. Modernization and repairs of machines and devices – modernization of the Bevex suspended locomotives and modernization of the PF-4/1032 wall conveyor together with the separating devices for the 2/VIII/385 wall.

B. Construction and modernization of structures and installations – railway investments, construction of construction facilities on the surface of the Nadrybie and Bogdanka Fields, modernization of the existing construction facilities, facilities of the 110/6 kV switching station, telecommunication systems and devices, power engineering, telecommunications and mechanical installations.

Gr. 3. Environment protection

The environmentally friendly projects include:

- extension of the mining landfill – this year, under an agreement, it is planned to complete the works. It is planned that lands will be purchased in connection with the extension,
- the "Szczecin" storage reservoir – further lands are planned to be purchased.

Gr. 4. Building and modernization of workings in the Bogdanka, Nadrybie and Stefanów Fields

It is planned to build the workings, mainly longwall headings, panel cross-headings and the remaining technological and access workings, allowing the walls in seams 382, 385/2 and 391 to be mined. There will also be conducted reconstructions of mining workings.

Gr. 5. Purchases of machines and devices

Purchase and assembly of panel complexes – the group covers, among others, the purchase of a coal ploughing system No. 3 for the wall 3/VI/385 (final invoice) and the purchase of a coal ploughing system No. 4 for the wall 1/I/385 (2014÷2015).

Purchase and assembly of machines, devices and finished goods – it is planned to purchase the machines and devices that require to be assembled in the worksite, including: suspended diesel locomotives, track mining locomotives, belt and scraper conveyors, powered lining sections, belt conveyors, sifters, cooling devices and roadheading machines.

Purchases of finished goods – devices without assembly – it is planned to purchase such devices as: devices for underground transportation of materials (containers for materials, braking bogies, timber carriers, bogies for excavated material), hydraulic pumps and aggregates (pump aggregates for binding materials, pumps for dehydrating the excavations and maintaining the required pressure in the fire system), electric devices (transformer stations, electric engines) as well as the remaining devices (powered lining sections for crossings between headings and walls, and ventube fans).

4.2.3 Subsidiaries

4.2.3.1 Investments of Łęczyńska Energetyka Sp. z o.o.

4.2.3.2 Investment execution in 2013

In 2013 Łęczyńska Energetyka incurred expenditure on construction in progress to the amount of PLN 14,375,000, with a major share of the funds allocated towards the modernisation and extension of a boiler house in Bogdanka. The remaining costs included the modernisation of buildings and structures related to heating and water and sewage management operations, as well as the purchase of machinery and equipment.

4.2.3.3 Plans for 2014

The planned investment expenditure of Łęczyńska Energetyka for 2014 stands at PLN 22,705,000. Out of this amount PLN 15,025,000 has been allocated towards the construction of a water treatment plant to process and treat the "underground" mining water generated by draining the LW Bogdanka S.A. coal mine, including the construction of technological connections to the water pressure boosting station and the heating plant premises. In the period between April and December 2013 the Company conducted a tendering procedure. In December 2013 the Company concluded a contract for the execution of a turnkey water treatment plant construction project to meet the needs of the existing infrastructure. The net value of the contract amounts to PLN 33,226,000 and the facility is expected to be put to use by the end of May 2015.

As part of intra-group investments (subject to consolidation) Łęczyńska Energetyka Sp. z o. o. in Bogdanka purchased from LW Bogdanka heating assets with a carrying amount of PLN 9,974,000. The transaction was executed on 22 January 2014 under Agreement No. 97/O/2014, the selling price for the assets stood at PLN 9,974,000.

The investment concept involving the extension of the heating plant into a heat and power plant is currently undergoing in-depth evaluation in terms of economic, financial and technical aspects. These analyses should help the Company determine the scope and development directions of the planned investment.

4.2.3.4 Investments of EkoTrans Bogdanka and RG Bogdanka

In 2013 the newly-established subsidiaries, EkoTrans Bogdanka and RG Bogdanka, incurred investment expenditure totalling PLN 273,234.71. These expenses were related directly to launching and continuing business operations.

4.3 Investments and capital investments of GK LW BOGDANKA S.A.

The value of cash held by the Group as at the end of December 2013 stood at PLN 289,916,000, of which PLN 255,810,000 was held by the Parent. Out of the amount of PLN 255,810,000:

- non-current assets accounted for PLN 77,912,000,
- current assets accounted for PLN 177,898,000.

The amount of PLN 77,912,000 includes the financial resources accumulated by the Company as part of the Mine Closure Fund and intended to cover the cost of mining plant liquidation (these funds are kept in a long-term bank deposit).

The amount of PLN 177,898,000 includes financial resources (available cash) kept in short- and medium-term bank deposits (including *overnight* deposits) – the amount of deposited cash varies depending on the Company's internal income and expenditure forecasts. In accordance with the adopted Strategy, the Company maintains the amount of available cash at the levels equal to the value of average monthly sales revenue (1/12 of forecast annual sales revenue).

Lubelski Węgiel BOGDANKA did not make any capital expenditure in 2013.

Provided that statutory bodies give their approvals, and Łęczyńska Energetyka adopts its own development strategy which consists in the construction of a heat and power station, the Company does not rule out the possibility that in 2014 it will participate in the subsidiary's project. Final decision will depend on the choice of a method for implementing the investment.

In 2013, the Company established such company as EkoTrans Bogdanka (10 April 2013), in order to improve its competitiveness with regard to outsourcing services rendered to LW BOGDANKA.

On 4 July 2013, Lubelski Węgiel Bogdanka acquired 100% shares in RG Bogdanka Sp. z o.o. (former Eltrans Mining Spółka z o.o.).

4.4 Assessment of the possibilities of investment plans' execution

The structure of financing property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from equity and the debt held (loan and bonds). The Management Board expects an increase in the Group's debt financing. As at the date of providing this Report, the LW BOGDANKA Group sees no threat as to the possibility to acquire additional debt financing, however it indicates that the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

The loan together with issued bonds (totalling PLN 621,000,000), disclosed in the Group's statement of financial position as at 31 December 2013, accounted for 25.29% of its equity and 16.15% of the balance-sheet total.

4.5 Research and development works and implementation works in the Group

In 2013, the following research-development and implementation works were performed at the Company:

1. The introduction of the coal-ploughing technique for coal extraction was successful for the extraction walls in the thin seams of the thickness of 1.2 – 1.7 m. In March 2013 the extraction of the second wall (7/VII/385) equipped with the first coal-ploughing complex was finished (started at the beginning of October 2011), of the highest length in Polish mining, i.e. over 5 km. In July 2013, in direct vicinity, another wall No. 1/VIII/385 was started, equipped with that complex, with the same length. In November 2013 wall No. 6/VII/385 was started, the second one in the Stefanów Field equipped with coal-ploughing complex Bogdanka-2. In 2013 a contract was signed for the purchase of the third coal-ploughing complex Bogdanka-3, for wall No. 3/VI/385, planned for starting at the end of 2014.
2. In 2013 the works over improving the technological system and mechanical equipment of coal-ploughing systems were continued. Before 2013, two mechanical solutions were introduced that had been developed earlier, for self-loading of the coal "pushed out" by the coal plough to the longwall headings (in the previous technological system the roadheading machines are applied for loading that coal on the crossings of longwall headings and walls), and a powered lining section for pockets at the longwall headings. In 2013 those devices were introduced as a standard. A powered lining section for pockets at the longwall headings was applied not only in coal-ploughing walls, but also after introduction of a certain modification in cutting machine walls in the Bogdanka and Nadrybie Fields.
3. In 2013 underground tests for a new device designed for withdrawing the heading casing during the closedown of the heading during longwall exploitation were carried out. That device largely improves the safety of work with such difficult mining works as closedown of headings during longwall exploitation, and mechanizes the hard works that had been performed manually. At the end of 2013, the first such device was purchased, and it was used in working with the closedown of the longwall heading of wall No. 1/VIII/385 in division G-1 in Stefanów. It is planned that in 2014 further such devices will be purchased.
4. In 2013, together with completion of extraction from wall 2/VI/385 in Nadrybie, the experimental and introduction works were completed, aimed at using the longwall heading twice, and verifying an alternative for the current system of exploitation, in which both longwall headings are closed down together with wall exploitation, and each heading is used once. Generally speaking, the experiment was successful and the exploitation of wall 2/VI/385 was finished as follows: for that wall the over-panel heading was the under-panel heading of the wall 1/VI/385 left behind the front of the wall which was protected with a special protective belt along the whole length of the wall, i.e. about 1,750 m. That heading (after being used twice) was closed down during exploitation of wall No. 2/VI/385. Despite the positive attempt in technical terms, the economic cost-effectiveness of that solution, in comparison with the previous method, is quite negative. A comprehensive economic analysis is still to be performed.
5. In 2013 works were continued over developing and introducing a new technology that will allow coal to be extracted with a short-front system, with the simultaneous filling in of the space with the stone coming from the preparatory works or from the initial separation of stone from the material excavated from the walls. Two variants of solutions are under analysis. One is based on a chamber-pillar system, and another is based on short filling longwalls. Variant 1 consists in extraction in the heading system on the basis of the basic headings in a typical yielding-support casing. These workings will be introduced in anchor casings with rectangular cross-sections. The post-exploitation area will be filled with stone. After gaining appropriate experience, the expansion is planned for the scope of activities, by filling the workings with dangerous waste, admissible by

law to be stored in the mine pit. In variant 2, there would be reinforced a longwall of the length of e.g. 50 m, with the application of a lining for filling longwalls, and the stone would be located in the zone extracted behind the lining. Out of the two solutions, the variant seems more realistic, although it would be more difficult to locate the external waste. Both variants require significant investment outlays and further analyses.

In 2013, within the works into improving the heading casing system, measurements and observations were performed in trial wall No. 1/VIII/385 installed in the over-panel heading in Stefanów, located at the cavities of the excavated wall No. 7/VII/385, the door frame casing made of a new grade of steel with high strength parameters obtained as a result of heat treatment, steel being supplied by Heitzmann (Germany). The casing is an alternative solution for the new steel developed within the research project executed by the Central Mining Institute (*Główny Instytut Górnictwa*) in Katowice and the "Łabędy" Steelworks in Gliwice, which was tried in the Bogdanka mine in 2011. So far the appraisal is positive, but the complete results will be obtained in the spring of 2014, when the 1/VIII/385 wall will finish the whole trial section of the heading.

4.6 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Group at least in the perspective of the upcoming year

4.6.1 Risk associated with the Group's social, economic and market environment

4.6.1.1 Risk associated with the social and economic situation in Poland and the world

The financial results generated by the Group are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, the demand for electricity and heat energy, the level of inflation, the rate of unemployment, and changes in exchange rates, etc.

The financial position of the Group is dependent mainly on the position of the Parent, i.e. LW BOGDANKA S.A. In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Group may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the Parent results is reduced. The Parent's financial performance may also deteriorate if the existing taxes or charges (including the mining royalties) are raised or new taxes or charges on hard coal mining are introduced.

4.6.1.2 Risk associated with the economic policy of the State in relation to the hard coal mining sector

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA Group's market position. Those plans are set forth in particular in two documents:

- "Strategy for hard coal mining sector in Poland for 2007÷2015" adopted by the Council of Ministers in July 2007,
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009.

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of the Group.

4.6.1.3 Risk associated with the levels of prices for raw materials for power production in Poland and the world

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The current difficult situation, crisis in the Ukraine, crisis in the Middle East, economic slowdown in China and increases in unsold coal inventories faced by both global and domestic producers due to a decrease in demand for coal may also exert an influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Group. The LW BOGDANKA Group mitigates the risk associated with prices of raw materials for energy production by controlling costs and signing long-term commercial contracts with key customers purchasing power coal.

4.6.1.4 Risk associated with the imposition of coal excise tax

As of 2 January 2012 the provisions of the Excise Tax Act of 6 December 2008 came into force. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act referred to above and the relevant implementing regulations, despite providing for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers, have resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

However, the risk to the Company's operations is limited owing to the fact that LW BOGDANKA S.A. sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers.

The Company mitigates the excise tax risk by providing excise tax training to the employees, co-operating with reputable tax advisors, by requesting tax authorities to issue individual tax rulings, by active participation in the legislation process, by introducing in trade contracts provisions that enable the transfer of the potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

4.6.1.5 Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in finance costs of the Company and hence have an adverse effect on the Company's financial results (alternatively, a possible decrease in interest rates may cause a decrease in finance costs of the Company bringing a positive effect on its financial results). In the Group's assessment, the interest rate risk currently has a limited bearing on the financial standing, given a relatively low degree of financing the Group's assets with interest-bearing third party capital. This risk may increase significantly in the case of a considerable growth in debt financing which is related to the group's development strategy currently implemented (extension of the Stefanów Field, investments of Łęczyńska Energetyka).

4.6.1.6 Risk associated with changes in exchange rates

In February 2013 the Parent concluded an agreement with Caterpillar Global Mining Europe GmbH for the supply of a wall ploughing system; the currency of the Agreement is EUR. A significant change in the EUR exchange rate could have an effect on the Company's financial situation.

In order to secure the Company against foreign exchange risk, LW BOGDANKA S.A. concluded a forward exchange contract. The security covers 100% of the value of the liability under the agreement to purchase a wall ploughing system. As at the publication date of this Report two out of four purchase transactions in EUR have been settled.

In February 2014 the Company concluded an agreement for the supply of a wall ploughing system, also paid for in EUR. The Company is planning to secure itself against foreign exchange risk on terms comparable to those applied in case of the previous purchase.

4.6.1.7 Risk associated with the impact of current macroeconomic situation on debt financing availability

Currently the LW BOGDANKA Group implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds and debt financing (currently totalling PLN 621 million).

At present, the LW BOGDANKA Group sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments, however due to the Company's indebtedness which has been increasing over last years, it is estimated that the possible costs of its acquisition might be higher than those currently incurred. The current interest-bearing debt (loan and the issued bonds of the total value of PLN 621,000,000) accounted for 25.29% of Company's equity and 16.15% of the balance-sheet total.

4.6.1.8 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of the LW BOGDANKA Group are exposed to risks and dangers beyond its control resulting from the specific nature of conducting activities in the mining industry, especially in the conditions of natural risks. These include events associated with the environment (e.g. industrial and technological malfunctions) and extraordinary events, e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters. Such events or phenomena could cause a temporary suspension of the LW BOGDANKA Group's operating activities or losses relating to property, financial assets and employees or could result in the Group being held legally liable. The most important natural hazards occurring in the mine include:

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale);
- methane hazard – methane category I (on a four-grade scale);
- water hazard – category I and II (on a three-grade scale);
- hazards connected with changing geological and mining conditions at the exploitation fronts.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Companies in the future. The Company secures necessary funds to finance costs related to this sphere of activity. The scope of mining damage in the case of LW BOGDANKA S.A. is relatively small, since extraction is performed under little urbanised area. The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the relatively low risk of a methane explosion (category 1 methane threat on a four-grade scale). Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on the LW BOGDANKA Group's operations include:

- the use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions occurring and the fact that the mining seams are relatively regularly laid out;
- the relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which the mine extracts hard coal;
- high qualifications of the personnel.

4.6.1.9 Risk of restrictive EU climate policy also with respect to the CO_2 emissions

The European Commission requires limiting the CO_2 emissions on the level of EU member states by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by 20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20-20-20" targets.

The European Commission is planning to introduce further requirements: cutting CO_2 emissions by 40% by 2030 and increasing the share of energy from renewable sources to 27%. The above requirements, unlike the current target of a 20% cut in CO_2 emissions by 2020 set for individual EU Member States, would be binding for the EU as a whole.

In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO_2 emissions. Limitation of the CO_2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW BOGDANKA Group, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO_2 emissions for particular sectors. At the same time, in the world (the USA, China, Australia) new technologies - i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO_2 emissions.

The Group is also reviewing the risk of national or regional regulations being introduced that set new emission standards for the existing or new low-power combustion sources in households.

The Group is monitoring any amendments to the Energy Law or other acts that promote generating energy from renewable sources or support the system of producing electricity through high-efficiency co-generation, assessing their potential impact on the Group's operations.

4.6.1.10 Risk of a decrease in demand for hard coal from the Polish power industry

There is a limited risk that the Polish power industry may be able to switch to a significant degree to a raw material other than hard coal within the next 10 years. The LW BOGDANKA Group has long-term contracts which secure it from the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. The Group takes measures aimed at further long–term securing of its provision of coal for commercial power production, relating to existing and prospective power units within the area of its operations. Also the imported coal poses some risk to the demand on national coal.

4.6.1.11 Risk of hostile takeover of the Group

As a result of its IPO on the Warsaw Stock Exchange, Lubelski Węgiel BOGDANKA S.A. has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. In consequence LW BOGDANKA S.A. became a private entity, almost 100% shares of which can be subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to approx. 11.5 million tonnes of coal per year, and consequently, the achievement of better results as well as technical and economic and financial indices. The prospects of such a growth, together with the lack of full economic effects prior to the programme completion, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

The Management Board undertakes actions the aim of which is to increase the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation.

4.6.2 Risks directly associated with the Group's operations

4.6.2.1 Risk associated with the launch of extraction of new deposits at LW BOGDANKA

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity could be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results of the LW BOGDANKA Group. At the moment the Group is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction until 2050.

Recently we have noted growing interest on the part of domestic (Kompania Węglowa S.A.) and international business entities in the coal deposits in the Lublin Coal Basin. Some of those entities have been granted a licence to conduct prospecting and exploratory works in areas adjacent to LW BOGDANKA S.A. Consequently, these entities may in the future apply for mining licences. LW BOGDANKA S.A. holds a competitive advantage over prospective rivals in the form of extensive technical infrastructure necessary to conduct its operations, as well as unique know-how related to coal extraction in the mining and geological conditions of the Lublin Coal Basin deposit.

4.6.2.2 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of the LW BOGDANKA Group, and therefore on the financial results achieved by it in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that the mine uses the longwall system and currently extracts coal from four operating and one reequipped mining faces, which operate simultaneously. At the target production capacity, however, coal is obtained from four operating and two reequipped mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the mine has a system of underground coal storage reservoirs. Three new reservoirs have recently been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that advanced mining equipment and machines is used in mining operations and intensive research and development work aimed at increasing the productivity of operations is conducted, introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the technical and technological risk.

In this group of risks, there is also the risk of unexpected, usually local, deterioration of the quality of the deposit, for example due to reduction of the thickness of the seam, uncovering waste rock concentrations or waviness of the seam, which will result in deterioration of the coal (an increase in amount of stone mined with the coal). In such a case, in spite of achievement of the full gross output and increased costs thereof (difficulties with mining the stone, greater wear of tools and means of transport, increased costs of processing and storage of stone, etc.), the amount of commercial coal obtained will be reduced, which will influence economic performance.

4.6.2.3 Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by LW BOGDANKA S.A. involves the use of highly specialised machines and equipment produced only by several producers in the world, and sometimes only by one, as is in the case of advanced powered longwall ploughing systems that enable reaching high extraction effectiveness in thin deposits.

As a result of the implemented investments referring to the Stefanów Field extension, it will be necessary to make further investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the development strategy.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation). Such advanced solutions for mining industry are manufactured by only one company in the world. In 2012, LW BOGDANKA S.A. purchased the second longwall ploughing complex and in 2013 concluded an agreement for the delivery of the third one, to be performed in 2014. In addition to high costs of purchasing such equipment, there is a risk of difficulties in access (costs) to unique spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

The risk of increased mining costs associated with the depth of mining will be growing. In 2015, mining of coal from seam 382 will end. Instead, mining of seam 391 will begin, which seam is located about 100 m below seam 382. As the depth increases, the difficulty of maintaining the workings (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs.

4.6.2.4 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of computer systems may adversely affect ongoing operations and therefore affect future financial results of the LW BOGDANKA Group. The Group systematically takes actions aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for IT environment protection. This refers to the organisation of access to data, making safety copies and their storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VPN secure connections, anti-virus systems for the purpose of protection servers and user workstations.

4.6.2.5 Key customer risk

Vast majority of the power coal produced by the LW BOGDANKA Group is sold to a relatively small group of large contracting parties operating on the domestic market. There is therefore a risk that the reduction or termination of cooperation with a key customer or the deterioration of the financial/economic situation of any of the main customers of the Company could have an adverse effect on the financial results.

As at the day of submitting the Report, the Group has signed contracts for the entire sales of coal for 2014, and has an agreement with Enea Wytwarzanie S.A. (Elektrownia Kozienice S.A.) which ensures a certain market for coal in the long-term perspective until 2025. In 2012, the Company signed new contracts with GDF Suez Energia Polska S.A. – (Elektrownia Połaniec) and with PGNiG Termika S.A. (formerly Vattenfall, Elektrociepłownie Żerań and Siekierki in Warsaw), Ożarów S.A. Group (Ożarów and Rejowiec Cement Plants), and has stable contracts with Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o. (formerly Energokrak, supplies to EDF Elektrownia Rybnik S.A.), which guarantee supplies of power coal for the next five years.

Furthermore, the Company has concluded conditional agreements with Enea Elektrownia Kozienice S.A., Energa Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future power coal supplies to new power units which, once the conditions precedent are met, will guarantee sales of coal at least until 2036. The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Company might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective.

In connection with its conditional nature, the aforementioned agreement with Energa Elektrownie Ostrołęka as regards future supplies for the newly constructed power unit C was terminated on 30 October 2012. The cause of termination, as given by the power plant, were changes in the market parameters of financing this investment and take-over of the Long-Term Investment Plan by the Energa Group, as a result of which the power unit C construction project was suspended and, therefore, the start date of power unit C operation, scheduled for 2016, will not be met. Termination of the agreement has no financial effect on the current situation, as the agreement related to a project of future supplies for which the Group assumes a high degree of risk related to failure to implement the project due to the requirement to ensure financing for the power unit C investment. The agreement is currently in the course of the 3 years' notice period. The terminated agreement does not apply to the current supplies to Energa Elektrownie Ostrołęka S.A., which take place in accordance with the terms of a separate agreement.

The Group mitigates the risk of long-term contracts by analysing the situation on the coal supplies and energy market and the forecasts related thereto, as well as by co-operating with renowned institutions dealing with energy sources market analysis and by co-operating with first-rate law firms. Managing the risk of long-term contracts is aimed at reducing the degree to which the Group may be affected by the risk of disadvantageous situation in coal pricing in the market through appropriate stipulation of agreements that ensures stability of supplies for commercial power industry.

Information concerning significant trade agreements signed by the Group in 2013 and after the balance sheet date is provided in section 3.1 of the Report.

There is also a risk that energy investments in new capacities will not be implemented, or that energy investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed – which may cause a problem regarding allocation of significant volumes of coal originating from increased extraction. The Group mitigates this risk by looking for new customers who would diversify alternative sale options and would for example use the coal to mix it with imported or domestic coal from other producers.

There is also a potential risk that as a result of investment delays, the level of higher extraction will be achieved later than it is assumed in the investment, mining and coal sales plans. This may bring about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by the LW BOGDANKA Group. The Group mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

4.6.2.6 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company

On both the Polish market and export markets, the LW BOGDANKA Group is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan) as well as supplies by other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp). In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- restructuring processes leading to the functional separation of entities responsible for generating energy, selling energy or purchasing coal as part of energy holdings;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme;
- large volumes in stock held by competitive coal producers and by electricity producers;
- poor financial standing of competitive coal producers; and
- the resulting sales strategy of the competitors that focuses on maintaining a healthy cash flow rather than on profitability.

In the case of coal suppliers from eastern markets, the LW BOGDANKA Group has a significant logistics advantage. In comparison to Polish producers of hard coal, its competitive strengths minimise the risk associated with price competition.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in the LW BOGDANKA Group to industry and power production and forces the customers to invest in fume desulphurisation installations. Because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the produced coal is significantly limited.

The specific parameters of the coal produced by the Company provide it with a competitive advantage when supplying coal mainly to commercial power producers, whilst limiting however the possibility of selling to individual buyers due to the restricted capacity to produce thicker coal assortments.

4.6.2.7 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Group's receivables in comparison to liabilities.

In order to protect against the risk of potential insolvency of its customers, the Group continuously monitors customers' arrears associated with making payments for the products sold (including for the main product - power coal), by analysing the credit risk for the main customers individually, or by the respective classes of assets. Moreover, as part of the credit risk management, the Group makes transactions solely with those customers whose creditworthiness has been confirmed. For many years the Company has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

4.6.2.8 Risk of delays in planned investments

The LW BOGDANKA Group is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of those tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. The LW BOGDANKA Group exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible.

The main construction work was completed, however with respect to construction there still are ongoing minor finishing works. In 2014, machine and technology assembly works will be completed and commissioning procedures and test run of the plant will be started. In accordance with an annex to the agreement and agreements for additional works, the whole investment should be completed by the end of 31 August 2014. As a result, full coal beneficiation will be possible starting from when the extension of the mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers.

4.6.2.9 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group, associating in total approx. 64% of its employees (four trade union organisations operate at LW BOGDANKA, associating 63% of the employees). The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of the LW BOGDANKA Group mainly. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by the LW BOGDANKA Group.

In the Group's opinion, cooperation of the Management Boards of the Parent and the Group's subsidiary with the trade unions operating in the Group has so far been successful. The Group's objectives include continuation of the cooperation between its Management Boards and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the companies' and the entire Group's objectives and strategy.

4.6.2.10 Risk associated with retaining and attracting human resources for LW BOGDANKA

The LW BOGDANKA Group's demand for human resources results from its strategy. The Group plans to recruit staff only for positions essential from the point of view of operating a coal mine, chiefly for mining, mechanical and electrical departments, and the Mechanical Coal Processing Plant, where, due to the work schedule of brigades/departments, it is impossible to complement the staffing by employees of external companies (e.g. RG Bogdanka).

So far the Group has experienced no major difficulties in attracting young and well-qualified personnel. The reactivated vocational training schemes discussed above essentially meet the Group's needs; therefore no risks have been identified in that area. Changes concerning the organisation of non-stationary vocational schooling (a system of courses), which were developed at the turn of 2011 and 2012, and will be introduced in the next school year, will not exert any influence on education, and thus, on the recruitment of new personnel.

A Company-independent factor which increases the risk of destabilisation of employment are the continued and protracted discussions and work of the government and the parliament on the pension system. While nothing negative has as yet been decided on miner pensions, announcements of returning to the case and the pressure from various social and political groups are conducive to the emergence of uncertainty. This regards extending the retirement age and reducing, or even revoking, the current pension benefits with respect to certain groups in the mining sector. The fear (perhaps unjustified) of losing certain accrued rights may, in case of unfavourable course of events, lead to numerous retirements in a short period of time by people who have already acquired the so-called industry-specific rights, but would otherwise be willing to continue to work, putting their retirement off until a little later. These are especially valuable employees because of their knowledge and experience. Their value is high, both for the quality of work and for the process of training younger staff. Their sudden departure in a short period of time could disrupt the generational continuity, which is being rebuilt, and thus the mild gradual staff turnover.

4.6.2.11 Risk of the employees being additionally employed in external entities cooperating with the LW BOGDANKA Group

Such cooperation involves external entities providing outsourcing services to the LW BOGDANKA Group, whereby it provides workers to perform mining and maintenance/refurbishment work on Saturdays, Sundays and holidays. Because that work requires that people with appropriate qualifications and experience be employed, the people employed by the entities referred to above are mainly employees who work at the Company from Monday to Friday on the basis of an employment contract concluded directly with the Company.

If the provision of work for the LW BOGDANKA Group by the employees of the LW BOGDANKA Group through third-party entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by the LW BOGDANKA Group.

In 2013, the Company established EkoTrans Bogdanka (10 April 2013) and RG Bogdanka (11 September 2013), in order to improve its competitiveness with regard to outsourcing services rendered to LW BOGDANKA.

4.6.2.12 Key supplier risk

The specific nature of the LW BOGDANKA Group's operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under concluded agreements. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Group may become dependent upon these entities.

The LW BOGDANKA Group, when signing agreements with suppliers, assesses possible threats for the contract performance and options for establishing cooperation with other suppliers. Furthermore, in order to secure the performance of "higher risk" contracts, the LW BOGDANKA Group requires that a performance bond is made.

4.6.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by the LW BOGDANKA Group (particularly those relating to the purchase of specialist equipment and technology), it is exposed to a risk of an agreement being concluded on unfavourable terms. This risk also occurs where a business partner has a very strong negotiating position (e.g. in the case of a contract for deliveries from the only manufacturer of a particular product). The Group is taking the following measures to minimise the probability of this risk occurring and its impact:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;
- training in the logistics of concluding contracts and market analysis and training in negotiations and trading, particularly at the international level.

4.6.3 Financial risk

4.6.3.1 Liquidity risk

Important factors in the assessment of insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In the case of the Group, cash at hand as at 31 December 2013 amounted to PLN 212,004,000. The current liquidity ratio for the Group amounted to 0.73, and quick liquidity ratio – 0.58. In the entire 2013 net flows from operating activities generated by the LW BOGDANKA Group were 9.88% higher (as compared to the previous year). Therefore, as at the day of submitting the Report, there is no risk of the insolvency. To avoid any potential risks in future and to mitigate the risk related to the Group's liquidity, long- and short-term analyses and forecasts are prepared, allowing cash needs to be determined. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

Furthermore, in order to optimise cash management, a public procurement procedure is currently pending in the Parent concerning the provision of a banking service involving the granting to the Company of an overdraft credit facility in PLN up to the amount of PLN 150 million.

4.6.3.2 Insurance risk

The Lubelski Węgiel BOGDANKA Group insures its business. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations. In this respect the Company holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish mining enterprises. The remaining Group's operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in the Group's possession, above-ground property insurance and all-risks insurance of rail vehicles. Given the very nature of insurance agreements which cover widest-available and at the same time specified scopes of insurance, it is not possible to fully transfer the risk faced by the Group on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Group will prove sufficient for covering each and every loss or liability, which may exert an influence on its financial standing, results of its operations and the generated cash flow.

4.6.4 Risks associated with environmental protection

4.6.4.1 Risk associated with reclamation and mining damage

The LW BOGDANKA Group is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be stricter. Any possible tightening of the standards in this respect may result in higher costs. As the mining area will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (purchase of developed real properties). Therefore, in addition to the existing recovery work, the Group will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results of the Group.

The effects of extraction are monitored on an ongoing basis, including by way of gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.

4.6.4.2 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the Group must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements - Best Available Techniques), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Group holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER Construction Ceramics Plant) and a permit for operating a mining waste utilisation facility. For the settlement period 2013÷2020, the Group was offered gratuitous CO_2 emission allowance. Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of the environment which may apply to the LW BOGDANKA Group. The changes may lead to the necessity of adjusting the Group's operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the financial results. In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2012 LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the operations in this respect have been adapted to the new regulatory requirements as from 1 May 2012.

In order to mitigate the risk related with the change in regulations with respect to the environment protection, the Group monitors on an ongoing basis, and adjusts its operations accordingly, within the prescribed time limits.

4.6.4.3 Risk associated with management of waste generated after extension of the mining area

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased (in 2013 at the level of 5.06 million tonnes per year; the forecast for the period after 2013 in connection with a further increase in extraction is that the amount of waste in 2014 will range between 5.2 and 5.7 million tonnes). As of 31 December 2013, approx. 37% of extraction waste was recycled, whereas the remaining part was neutralised at the waste yard on the mine's premises (the waste is recycled by the mine or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Group (on the basis of a building permit) commenced works connected with increasing the height of the existing yard to 250 MASL, and undertook measures aimed at acquiring the adjacent areas in order to further extend the facility (increasing the area by approx. 144 ha to approx. 230 ha). The multi-stage investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements, as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the mine will be forced to purchase those plots. Applications were submitted requesting that relevant amendments be made to the local spatial development plan. Considerable advancement has been made in this respect. Following social consultations, local community expressed its approval for the investment. Moreover, talks with the plot owners were already held, and preliminary consents for the purchase of plots were obtained. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to other entities for management, other waste yard location) may turn to be less cost effective which may affect the financial result.

In order to limit the risk related to acquiring waste utilisation sites, works connected with increasing the height of the existing mining waste utilisation facility were commenced. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project.

4.6.4.4 Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land). Those environmental conditions do not pose an obstacle for the activity in its present scope. Nevertheless, all the planned investment activities must be analysed from the perspective of their potential negative impact on protected areas.

According to the law, business activity which has negative impact on the environment of the protected areas (and in their vicinity) may be significantly limited. During the proceedings aiming to issue investment decisions, a competent administrative authority examines the environmental impact of the investment by analysing the description, characteristics, technical and project data of a given investment. Should the authority find it necessary, it may impose certain obligations on the investor in order to eliminate the negative impact. Therefore, if a planned investment is located in the zone of impact on protected areas, the investor must take into account the possibility that it may be encumbered with certain obligations, which in practice usually means the necessity of additional investment expenditures.

There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter (e.g. an obligation to introduce certain technological solutions with respect to water and sewage management in connection with the impact on the ground water environment and the risk of negative changes in the ground water levels). These investment restrictions may require higher investment costs and therefore may affect the financial result.

4.6.5 Risk associated with proceedings and legal environment

4.6.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Tax returns submitted by the Company may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Submitted tax returns may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

4.6.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA

In accordance with the strategy of Lubelski Węgiel BOGDANKA S.A., the value of underground workings and the infrastructure located in these workings have not been included in its real property tax returns for tax assessment purposes.

In 2013 fiscal proceedings were pending against the Company in order to determine the amount of real property tax due for the period between 2004 and 2012, instigated by the Heads of Puchaczów, Cyców and Ludwin communes.

In their decisions specifying the amount of real property tax due from the Company with regard to the period between 2003 and 2007, the authorities of the first instance determined that real property tax shall also apply to underground mining workings, including the infrastructure located within those workings. However, the decisions specifying the amount of real property tax due from the Company for 2008, issued both by the authorities of the first instance and the authority of the second instance [Local Government Appellate Court in Lublin], determined that real property tax was only due for the following infrastructure components located in underground mining workings: pipelines, slackline cableway routes and floor-mounted railways, which means that the real property tax base fails to include the value of underground mining workings in terms of the cost of their drilling. The decisions issued by the Local Government Appellate Court regarding the real property tax due for 2008 were challenged by the Company in full and submitted for a ruling to the Provincial Administrative Court in Lublin.

The position of fiscal authorities stated in their decisions concerning the real property tax for 2008 clearly reflects the unequivocal position of the Polish Constitutional Tribunal expressed in its ruling of 13 September 2011 in Case No. P 33/09 and the subsequent position of administrative courts based thereon. In the ruling referred to above the Constitutional Tribunal found that under the applicable provisions of law, imposing real property tax on the value of underground workings is, from the constitutional perspective, unacceptable. Underground workings are not building facilities (building equipment) within the meaning of the Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

The position expressed in the above ruling by the Constitutional Tribunal and the related position of administrative courts questions the possibility to calculate real property tax on the value of underground workings in terms of the cost of their drilling. At the same time, the Constitutional Tribunal did not rule out the possibility of charging real property tax on structures and building equipment located in underground mining workings, with the proviso that real property tax on such structures and equipment could only be imposed if certain conditions, specified in detail in the ruling, were met.

Taking into account the position of the Tribunal expressed in the ruling referred to above and the position expressed by the fiscal authorities (Heads of communes and the Local Government Appellate Court in Lublin) in their decisions regarding the Company's real property tax liabilities for 2008 it should be stated that if this position prevails in the future, the risk of negative financial consequences related to the pending real property tax proceedings has been significantly reduced compared to the scale of repercussions resulting from the decisions of the authorities of the first instance concerning the real property tax for the period between 2003 and 2007.

4.6.5.3 Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as non-current assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified as non-current assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred – cost pits. They include the following pits:

a. preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited panel. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;

b. special pits of auxiliary nature - created from pits localised on exploitation fields (blasting niches, drill niches, section chambers). They are liquidated with other movement pits for which the operation has already been performed;

c. selector pits – they are used for deposit extraction (panels and cross-cuts). Those pits are liquidated when the extraction in the field of the panel is completed and when they are no longer necessary for operation of the remaining parts of the mine;

d. pits and examination holes – corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

Some of the cost pits referred to above were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of another qualification of this type of costs for the purposes of corporate persons income tax than the one performed, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax. The mining companies have made an attempt to clarify this issue – they suggest changes and clarification of the classification rules concerning this aspect of Non-Current Assets Classification. http://www.lw.com.pl

4.6.5.4 Risk of a change in the law and its interpretation and application

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Any tax rulings issued following the stock exchange debut may tarnish the Group's image and goodwill. Submitted tax returns may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Tax returns submitted by the Group companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities.

As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities. In order to limit this type of risk, the Group applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the operations and financial performance of individual companies within the group.

4.6.5.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (uniform text, Dz. U. [Journal of Laws] 09.185.1439, uniform text). For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the companies' activity from the perspective of disclosure requirements.

4.6.6 Integrated system of enterprise risk management — a summary

Following leading corporate benchmarks with respect to the fulfilment of the best international practices, the Company's obligations and activities supporting corporate governance, in 2011 LW BOGDANKA S.A. introduced the Integrated System of Enterprise Risk Management (ERM). In 2012, an IT (Risk Manager) system was implemented to support the enterprise risk management system, and the basic documents setting out the rules of system functioning, such as policies, procedures, risk register and risk valuation principles, were modified to adapt them to the implemented software. Currently, the risk management system of the Company covers all areas of the business and is aimed at identifying potential risks and opportunities for the enterprise. Risks are identified by Risk Owners (persons holding managerial positions in the organization), who then valuate them in accordance with predetermined scales of probability and potential impact of risk materialisation in five areas. Risks that received a total score in excess of a certain value are considered strategic risks – significant for the Company's business. For those risks, actions/plans aimed at minimising them and mitigating the possible effects of their occurrence are established and accepted by the Management Board. An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which Committee has its own specific competences at every stage of ERM operation, and which performs functions that involve accepting and issuing opinions on any identified risks and mitigation measures.

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, work is planned to further adapt the system to the needs of the Company to increase its role and effectiveness, based on the experience and performance of the system to date.

5 OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2013

5.1 Holdings of shares in LW BOGDANKA S.A. as well as shares in related entities of the Company by the management and supervision personnel of LW BOGDANKA S.A.

The table below presents the total number and par value of shares of LW BOGDANKA S.A. as well as shares in related entities of LW BOGDANKA S.A. held by the management and supervision personnel of LW BOGDANKA S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report:

Table 19 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management and the Supervisory Boards of LW BOGDANKA S.A.*

The Management Board					
	Number of Company shares as at 20 March 2014	Par value of shares (PLN)	Number of Company shares as at 7 November 2013	Par value of shares (PLN)	Number of shares in subsidiaries
Zbigniew Stopa	5,703	28,515	5,703	28,515	0
Roger de Bazelaire	0	0	0	0	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Krzysztof Szlaga	0	0	0	0	0

Supervisory Board					
	Number of Company shares as at 21 March 2013	Par value of shares (PLN)	Number of Company shares as at 7 November 2012	Par value of shares (PLN)	Number of shares in subsidiaries
Witold Daniłowicz	0	0	0	0	0
Eryk Karski	0	0	0	0	0
Stefan Kawalec	0	0	0	0	0
Raimondo Eggink	0	0	0	0	0
Robert Bednarski	0	0	0	0	0
Dariusz Formela	0	0	0	0	0
Tomasz Mosiek	0	0	0	0	0
Michał Stopyra	0	0	0	0	0
Total	**Number of Company shares as at 20 March 2014**	**Par value of shares (PLN)**	**Number of Company shares as at 7 November 2013**	**Par value of shares (PLN)**	**Number of shares in subsidiaries**
	7,865	**39,325**	**7,865**	**39,325**	**0**

* According to the statements of the members of the Company's Management Board and Supervisory Board

The members of the Company's Management and Supervisory Boards do not hold any shares in the subsidiaries EkoTRANS Bogdanka Sp. z o.o. and RG Bogdanka Sp. z o.o.

5.2 Information on agreements known to LW BOGDANKA S.A. and subsidiaries (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the Company and its subsidiaries have no information on agreements, as a result of which changes may occur in the future in proportion of shares held by the existing shareholders.

5.3 Acquisition of the Company's own shares

In 2013 the Company did not acquire any of its own shares.

6 GROUP'S PERSONNEL INFORMATION

6.1 Employment at the Group

Table 20 Employment at the Lubelski Węgiel BOGDANKA Group

Item		Employment at the year end					Structure	Change 2013/2012
		2009	2010	2011	2012	2013	%	%
	Total							
Group total		**4,016**	**4,087**	**4,303**	**4,705**	**5,377**	**100**	**14.28**
including:	Lubelski Węgiel BOGDANKA S.A.	3,885	3,968	4,184	4,587	4.768	88.67	3.95
	Łęczyńska Energetyka sp. z o.o.	131	119	119	118	116	2.16	-1.69
	EkoTrans sp. z o.o.	0	0	0	0	2	0.04	-
	RG Bogdanka sp. z o.o.	0	0	0	0	491	9.13	-
White-collar workers								
Group total		**589**	**589**	**640**	**665**	**707**	**13.15**	**6.32**
including:	Lubelski Węgiel BOGDANKA S.A.	549	564	596	621	643	11.96	3.54

	Łęczyńska Energetyka sp. z o.o.	40	43	44	44	43	0.80	-2.27
	EkoTrans sp. z o.o.	0	0	0	0	2	0.04	-
	RG Bogdanka sp. z o.o.	0	0	0	0	19	0.35	-
Blue-collar workers								
Group total		**3,427**	**3,480**	**3,663**	**4,040**	**4,670**	**86.85**	**15.59**
in-clud-ing:	Lubelski Węgiel BOGDANKA S.A.	3,336	3,404	3,588	3,966	4.125	76.72	4.01
	Łęczyńska Energetyka sp. z o.o.	91	76	75	74	73	1.35	-1.35
	EkoTrans sp. z o.o.	0	0	0	0	0	-	-
	RG Bogdanka sp. z o.o.	0	0	0	0	472	8.78	-
Underground workers								
Group total		**2,838**	**2,895**	**3,010**	**3,343**	**3,985**	**74.11**	**19.20**
in-clud-ing	Lubelski Węgiel BOGDANKA S.A.	2,838	2,895	3,010	3,343	3.515	65.37	5.15
	Łęczyńska Energetyka sp. z o.o.	0	0	0	0	0	-	-
	EkoTrans sp. z o.o.	0	0	0	0	0	-	-
	RG Bogdanka sp. z o.o.	0	0	0	0	470	8.74	-

2013 brought a 14.28% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent was caused by new hirings in connection with the investment programme.

In 2013 the personnel employed at the Parent accounted for 88.67% of total employment in the Group. Workers accounted for 76.72% of all employees.

In comparison with 2012 the number of underground staff went up by 159 workers, i.e. 5.15%. These employees constituted the main group employed in the Group, i.e. 74.11%.

6.2 Salaries and wages in the Group

The average monthly salary in the Group (excluding profit-based compensation) stood at PLN **7,042.75** gross and was by 2.30% higher than the average remuneration in 2012.

Table 21 Salaries and wages in the LW BOGDANKA Group

Item		**Average salary (PLN)***			**Change (%)**
		2011	**2012**	**2013**	**2013/2012**
Total staff					
Total		**6,448.27**	**6,884.45**	**7,042.75**	**2.30**
including:	Lubelski Węgiel BOGDANKA S.A.	6,529.89	6,967.99	7,211.35	3.49
	Łęczyńska Energetyka sp. z o.o.	3,662.38	3,755.31	3,976.30	5.88
	EkoTRANS BOGDANKA sp. z o.o.	-	-	7,982.25	-
	RG Bogdanka sp. z o.o.	-	-	2,947.86	-
Full-time employees					
Total		**8,483.97**	**9,158.33**	**9,424.10**	**2.90**
including:	Lubelski Węgiel BOGDANKA S.A.	8,727.75	9,407.97	9,722.49	3.34
	Łęczyńska Energetyka sp. z o.o.	5,208.11	5,638.35	6,016.05	6.70

Item		Average salary (PLN)*			Change (%)
		2011	2012	2013	2013/2012
	EkoTRANS BOGDANKA sp. z o.o.	-	-	7,982.25	-
	RG Bogdanka sp. z o.o.	-	-	4,891.73	-
Blue-collar workers					
Total		**6,090.47**	**6,506.34**	**6,650.87**	**2.22**
including:	Lubelski Węgiel BOGDANKA S.A.	6,162.53	6,581.66	6,812.39	3.51
	Łęczyńska Energetyka sp. z o.o.	2,778.73	2,683.82	2,767.24	3.11
	EkoTRANS BOGDANKA sp. z o.o.	-	-	-	-
	RG Bogdanka sp. z o.o.	-	-	2,807.87	-

* payroll fund charged to the Company's costs

The Group was increased by new subsidiaries: EkoTRANS BOGDANKA sp. z o.o. from 1 May 2013 and RG Bogdanka sp. z o.o. with registered office in Bogdanka from 1 July 2013.

The level of remuneration paid out at LW BOGDANKA GROUP did not adversely affect its profitability or management efficiency, nor limit its investment operations.

LW BOGDANKA S.A.'s Management Board exercises ongoing supervision over the share of payroll costs in the total cost of coal production. In the year in question the relationship between the pay increase rate, pay for performance and work efficiency rate is deemed correct.

6.3 The value of remuneration, bonuses or benefits, including those granted under incentive or bonus schemes based on LW BOGDANKA S.A.'s capital, paid out, due or potentially due to the Management Board and Supervisory Board Members

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.

Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual bonus in the maximum amount of 60% of their basic annual remuneration for the year preceding the year in which the award was granted.

The total gross remuneration paid to the Members of the Management Board in 2013 amounted to PLN 3,482,527.20. For the performance of their duties at the Company, Members of the Management Board were given remuneration only on account of employment agreements.

- Zbigniew Stopa - PLN 948,562.64
- Waldemar Bernaciak - PLN 721,940.52
- Yves Marie Gerard Roger de Bazelaire de Boucheporn
  - PLN 631,987.40 (from 4 March 2013)
- Krzysztof Szlaga - PLN 520,315.81 (from 11 March 2013)
- Krystyna Borkowska - PLN 350,467.65 (from 4 July 2013)
- Lech Tor - PLN 129,253.18 (from 4 July 2013)

In 2013 the former President of the Management Board Mr Mirosław Taras was paid the amount of PLN 180,000 as compensation for the non-competition clause.

The total gross remuneration paid to the Company's proxies in 2013 amounted to PLN 903,222.96. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

Supervisory Board

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. 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.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

Total gross remuneration paid in 2013 to the Supervisory Board Members for the performance of their duties at the Company amounted to PLN 843,420.00, including:

- Witold Daniłowicz - PLN 156,000.00
- Eryk Karski - PLN 133,200.00
- Stefan Kawalec - PLN 132,000.00
- Robert Bednarski - PLN 110,400.00
- Raimondo Eggink - PLN 110,400.00
- Tomasz Mosiek - PLN 110,400.00
- Dariusz Formela - PLN 88,800.00
- Michał Stopyra - PLN 2,220.00 (from 22 November 2013)

In 2013 one Member of the Management Board of LW Bogdanka S.A. received remuneration for the performance of duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

- Zbigniew Stopa PLN 46,500

Other Members of the Management Board and Supervisory Board of LW Bogdanka S.A. did not receive any remuneration for the performance of duties at the Company's subsidiaries.

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013÷2017.

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013 – 2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. 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.

6.4 All agreements concluded by and between LW BOGDANKA S.A. and Łęczyńska Energetyka, and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board which were in force in 2013, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration. These provisions apply to agreements concluded with members of the Management Board appointed for the 8th term of office.

6.5 Information on the control system of employee share schemes at the Group

In 2013, no control system of employee share schemes was in place at the LW BOGDANKA Group.

7 ENVIRONMENTAL PROTECTION

7.1 Measures undertaken by LW BOGDANKA S.A. in connection with environmental protection

7.1.1 Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.

The Polesie Protected Landscape Area is located in the north-west, while in the south-east there is the Chełm Protected Landscape Area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-environmental actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001.

7.1.2 Natural environment protection measures

Air protection

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Construction Ceramics Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Production Branch has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and decision No. 2/2012 of 31 January 2012. In 2012, the EkoKLINKIER Construction Ceramics Production Branch emitted 2,960 Mg of dust and gas without violating the permit. In accordance with the applicable laws, environmental charges for air emissions from the Construction Ceramics Plant were charged and paid at the end of the calendar year.

The Construction Ceramics Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of CO_2 per annum in the 2nd trading period 2008÷2012. The proposed allocation to the Plant for the trading period 2013÷2020 is 10,700 Mg of CO_2 per annum. The report for 2013 on CO_2 emissions will, upon verification by an authorised company, be sent to the National System Administrator – Institute of Environmental Protection. Time limit stipulated by the law — the end of the 1st quarter after the end of the trading year.

The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

7.1.3 Water and sewage management

Water and sewage management in terms of mine water involves:

- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),
- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),

- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2013, the average annual water supply to workings amounted to 6,203,677 m^3, average total mineralisation 2,411.91 mg/dm^3, $Cl + SO_4$ ion content – 997 mg/dm^3. The $Cl + SO_4$ ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with the Central Mining Institute *(Główny Instytut Górnictwa*) classification) – as was the case in previous years.

The quantity of mine water used in 2013 for industrial purposes underground and on the surface amounted to a total of approx. 13,157 m^3/day, out of which approx. 11,582 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the Mechanical Coal Processing Plant in the quantity of 1,547 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 28 m^3/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2013, as was the case in previous years, 35 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.

In 2013, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute (*Główny Instytut Górnictwa*), and revealed the following concentrations: Radium ^{226} in the range of < 0.01 – 0.09 KBq/m^3, Radium ^{228} < 0.07 - 0.12 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

The Company holds an administrative decision – water permit for special water use in accordance with its operations. It is decision no. ŚiR.III.6811/91/07 of 31 December 2007, valid until 31 December 2017, concerning:

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:

   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,

   Qhmax = 917 m^3 /h, until 31 December 2010, and

   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,

   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.

b) discharge of unused mine water from the sedimentation tank through the discharge ditch into the "Żelazny" ditch, which is a tributary of the Świnka River.

In 2013, 15,422 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 970.84 mg/dm^3).

Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.

Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:

- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.

Pursuant to legal requirements, twice a year – after the end of each calendar year, LW BOGDANKA calculated and paid a charge for $Cl + SO_4$ load in unused mine water discharged into the receiving water body – the Świnka River.

In 2013, in compliance with the water permit, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

7.1.4 Surface protection

In 2013, the impact of mining on the surface – as to date – manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:

- approx. 2.50 m in the area of the former ZRH (Agriculture and Stock Farm) in Puchaczów, and in the area of such villages as Kobyłki-Kolonia Szczecin, Nadrybie Dwór, Nadrybie Ukazowe and to the east of the buildings in the Dratów village,

- approx. 2.00 m in the area of the village of Uciekajka and western part of the village of Kaniwola,

- approx. 2.00 m east of Puchaczów (near the course of the side-track),

- approx. 0.30 m south of the mining area (in the area of 7/VII ploughing panel exploitation).

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining two seams – maximum soil settlement remains at the same level and amounts to approx. 5.00 m in the central part of the settlement basin.

Damage to buildings in 2013 – as to date – were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 17 buildings (in 10 residential and 7 farm ones).

In 2013, the buy-out of the developed properties that were affected most with the negative effects of mining exploitation, which started in 2010, was continued. In order to repair unremovable damage caused by mining in 2013 another three properties located in the Puchaczów commune were bought together with buildings situated on these properties.

As part of mining damage repair, dressing of damaged asphalt roads and dirt roads was carried out (in sections of commune and district roads) within a total distance of approx. 6.2 km.

Damage to farmland in 2013 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permeation of land gradually becoming larger in the following regions:

- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I, 8/I and 7/I in seam 382 are mined,

- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,

- the area of the villages of Uciekajka and Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.

- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV, 3/IV and 4/IV in seam 385 are mined.

The affected land owners in this area received suitable compensation for lost profits from the land affected by permeation in the total amount of PLN 2.6 million.

The costs of removing damage caused by mining in 2013 amounted to a total of approx. PLN 7.5 million. Total expenditure incurred in 2013 in connection with removing damage caused by mining increased in relation to the expenditure incurred in 2012, which amounted to approx. PLN 5.2 million.

In 2013, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki were continued.

Reclamation

In 2013, Lubelski Węgiel BOGDANKA S.A. did not conduct land reclamation works in post-industrial areas, however it regularly nurtured the greenery, and took care of the facility used as the mining waste dump, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2014 and in the years to follow, it is forecast that another developed farming plots in the Puchaczów and Ludwin communes will be bought back, due to irreparable to-date and forecast further damages caused by mining exploitation processes (i.e. permanent continuous undercuts). In 2014 about 8 developed real properties are planned to be purchased (applications in this regard were submitted in 2012 and 2013).

As a part of removing mining damage, in 2014 it is also planned:

- replacement of several overhead power lines with cable power lines, and replacement of some power lines with isolated networks.

Due to further exploitation, and thus ground settling (about 2.0m - exploitation of panels No. 1/IV/385, 2/IV/385, 3/IV/385 and 4/IV/385), there were local floodlands in the area of the mining water outflow ditch which prevented gravitational outflow of the mining water. After performance of hydro works in previous years, this area is being monitored regularly in order to prevent possible obstructions in outflow of this water to the Świnka river.

Waste management

In 2013, the total mining waste amounted to 5,064,500 tonnes. Approximately 37% of the waste was recovered and reused.

Waste recovery for industrial purposes in the installation of EkoKLINKIER Construction Ceramics production amounted to a total of 18,152 tonnes of waste.

Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 1,846,421 tonnes.

Mining waste is mostly (approx. 99% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.

Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).

The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it in the facility used as the mining waste dump – in accordance with the Act on waste (Dz. U. [Journal of Laws] No. 62, item 628, 2001, as amended).

Table 22 Waste

Item	**2013**	**2012**
Mining waste (Mg)	5,064,500	4,742,458
Deposited waste (Mg)	3,199,928	2,395,292*
Reused waste (Mg)	1,864,572	2,554,471

*/including: 207,305 Mg stored from 2011 and 2,187,987 Mg stored from current production

In 2013, the Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3) (consolidated text, Dz. U. [Journal of Laws] of 2013, item 1136).

Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.

In 2013, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.

To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.

LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

Environmental protection sanctions and charges to which the Company is exposed

Mining activity is associated with operating and environmental charges, and a number of costs connected with post-mining waste management, post-industrial land remediation, environmental monitoring, and preparation of certified reports and documentation necessary for proper operation of the plant.

Table 23 Cost related to environmental protection [in PLN '000]

No.	Type of cost	2013	2012
1.	Protection costs (remediation, monitoring)	609.24	803.39
2.	Post-mining waste management and post-industrial waste treatment	26,892.90	40,459.02
3.	Cost of certified reports, opinions, documentation, designs, etc.	21.50	200.05
4.	Environmental charges, including:	456.26	408.08
	- emissions of gas and dust from means of transport, Construction Ceramics Plant and climatic equipment	193.94	168.09
	- waste [1)]	-	-
	- discharge of sewage	262.32	239.99
5.	**Total costs**	**27,979.90**	**41,870.54**

[1)] storage of post-mining waste is not subject to charge (the Mining Waste Act)

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2013.

Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge.

The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 24 Exploitation charge and mining use charge [in PLN '000]

No.	Type of charge	2013	2012
1	Exploitation	14,945.18	14,181.41
2	Mining operations	-	-

7.2 Environmental activities by Łęczyńska Energetyka Sp. z o.o.

a) Air protection

In 2013, Łęczyńska Energetyka operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass),
- in Zawadów (power 0.435 MW, coal and waste wood),
- boiler house Pasternik in Łęczna (power 4.0 MW, light fuel oil, a reserve boiler house).

With respect to air protection, the Company holds the following decisions:

- decision no. PZ 13/2007 issued by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.

- decision no. RŚ.V.MJ.7691/15/09 of 20 December 2012 issued by the Lublin Marshal's Office in Lublin, amending decision no. BAO 7644/6/1/2006 of 31 March 2006 issued per procura Łęczna County Governor, as amended by decision no. BAO 7644/6/2/2006 of 28 June 2006 issued per procura Łęczna County Governor and decision no. RŚ.V.PS.7691/15/09 of 17 April 2009, issued by the Lublin Marshal's Office in Lublin, amended by decision ref. no. RŚ.V.MCHW.7691/15/09 of 30 December 2013, permitting the Company to take part in the European Community's emission trading scheme, valid until 30 March 2016.

b) Water and sewage management

Currently the Company holds the aquatic legal survey permits:

- decision no. BAO.6341.42.8.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Nadrybie, valid until 30 November 2032
- decision no. BAO.6341.37.3.2012 of 29 October 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Stefanów, valid until 30 September 2032
- decision no. BAO.6341.42.9.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Bogdanka field, valid until 30 November 2022
- decision no. BAO.6341.42.10.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Nadrybie and Stefanów Fields, valid until 30 November 2022
- and decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010, issued by the Lublin Marshal's Office in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.

Currently, the Company runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two liquid waste treatment plants: a mechanical / biological one in Bogdanka with the capacity of 700 m3/24 hours, and a mechanical / biological one (Bioblok) in Nadrybie with the capacity of 400 m3/24 hours.

c) Waste management

The Company conducts waste management in accordance with the following decisions:

- decision issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/20/08-7 valid until 30 June 2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna and Zawadów,
- decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007 - an integrated permit for the "Heat–Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka", which covers the waste that is generated in connection with the heat-generating plant's activities changed into decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010, issued by the Lublin Marshal's Office in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów,
- decision no. BAO.6233.7.4.2012 of 13 April 2012 issued by the Poviat Starosty [county authorities] in Łęczna to recover waste other than hazardous waste, valid until 30 June 2020, amending

Decision No. BAO 6140-24/10-6 of 17 August 2010 issued by the Poviat Starosty [county authorities] in Łęczna – recovery of waste in burning installation – Zawadów, valid until 30 June 2020.

The waste generated is as follows:

a) slags, furnace ashes, and dusts from the boiler house,

b) ash and slag mixtures from liquid waste discharge of combustion waste,

c) sediments from the liquid waste treatment plant in Bogdanka and Nadrybie,

d) screenings from the waste treatment plant,

e) used oil,

f) other solvents and solvent mixtures,

g) waste printer toner,

h) fluorescent and mercury lamps, monitors,

i) chemical reagent packaging,

j) non-segregable municipal waste, plastic packaging

k) used cleaning materials and sorbent,

l) steel and cast iron scrap,

m) non-ferrous metals scrap,

n) insulation materials other than mentioned above (mineral wool, glass wool, tar board),

o) concrete waste and concrete rubble from demolished structures and repairs,

p) brick rubble,

q) glass,

r) packaging containing residues of or contaminated by dangerous substances,

s) used electronic devices (computers etc.).

The Company hands over the waste that it generates to business entities that hold the relevant waste management decisions issued by appropriate local government authorities pursuant to the Waste Act of 27 April 2001 and a new act of 14 December 2012.

d) Financial charges for the economic use of the environment

Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years are presented in the table below.

Table 25 Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment [in PLN '000]

Item	2013	2012
Emissions of boiler house pollutions: in Bogdanka in Łęczna in Zawadów in Ostrów Lubelski	 108.42 - 1.77 -	 128.89 - 1.34 -
For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów	85.78	61.74
TOTAL	1,959.83	1,919.73

In the financial year 2013 the charge for business use of the environment was by 2.09% higher as compared to the previous year.

Concurrently, due to the decrease in production, the emissions fee for the boiler house in Bogdanka went down by approximately 16%. The opposite was true of the boiler house in Zawadów, where the emissions fee for the same period increased by 32%.

The rise in the fees for the use of the environment in terms of water intake and wastewater discharge (by nearly 39%) was the direct consequence of the increase in underground water extraction and in the volume of wastewater discharged (in particular from the Nadrybie and Stefanów Fields).

In the past financial year, as in previous years, no fines for exceeding set emission limits were imposed on the Company.

The volume of CO_2 emissions amounted to 48,583 Mg, the limit granted for 2013 stands at 29 440 Mg (not yet approved).

7.3 Environmental protection activities of EkoTrans Bogdanka

EkoTRANS provides services to the mine with respect to transportation and management of spoil arising during coal- associated shale cleaning and washing.

7.4 Environmental protection activities of RG Bogdanka

RG Bogdanka was not engaged in any environmental protection activities.

8 PROCEEDINGS PENDING BEFORE COURT, RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW BOGDANKA S.A. or its subsidiary is a party, concerning:

- liabilities or claims of LW BOGDANKA S.A. or its subsidiary worth at least 10% of LW BOGDANKA S.A.'s equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW BOGDANKA S.A.'s equity.

For more information about the proceedings to which LW BOGDANKA S.A. was a party see the Directors' Report on Operations of LW BOGDANKA S.A. for the period from 1 January 2013 to 31 December 2013.

9 OTHER SIGNIFICANT EVENTS AFFECTING THE OPERATIONS OF THE LW BOGDANKA GROUP THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS

9.1 Free of charge shares for eligible employees

On 4 January 2012, a total of 3,208,111 employee shares of Lubelski Węgiel BOGDANKA S.A. acquired free of charge by the Company's employees, were introduced to the Warsaw Stock Exchange. On the same day, the Company's shares were registered with the National Depository for Securities. On 4 February 2013, a total of 34,754 employee shares were dematerialised and introduced to the Warsaw Stock Exchange. At present, there are 135 registered shares traded outside of a regulated market. This was the final stage in the introduction of the employee shares to the Warsaw Stock Exchange. Since the Company's IPO, the entire process has been described in detail in the Company's subsequent annual reports.

9.2 Resolution on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013÷2017

On 4 July 2013, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. adopted Resolution No. 26 on the issue of up to 1,360,540 (one million three hundred and sixty thousand five hundred and forty) registered series A subscription warrants ("Warrants") with the exclusion of a pre-emptive right, a conditional increase in the Company's share capital by not more than PLN 6,802,700 (six million eight hundred and two thousand seven hundred zlotys) by issuing not more than 1,360,540 (one million three hundred and sixty thousand five hundred and forty) ordinary bearer series D shares with a nominal value of PLN 5.00 (five zlotys) each ("Series D Shares") with the exclusion of a pre-emptive right. Each Warrant will carry the right to acquire one Series D Share. The Warrants will be offered to the members of the Company's Management Board and to senior management members of key importance for the Company's development, i.e. to employees of the Company and of its subsidiaries as named in a list prepared by the Management Board and approved by the Supervisory Board ("Eligible Persons"), as a result of exercising the options granted by the Company's Supervisory Board ("Options") as part of the Management Options Scheme in place at the Company in 2013÷2018 ("Scheme"). The Warrants are to be issued free of charge, which is justified by the nature of the issue.

The issue of Series D Shares, in accordance with the assumptions of the Scheme, will be equal to their nominal value, i.e. PLN 5.00 (five zlotys) per share. The right to acquire Warrants free of charge and the right to acquire Series D Shares at their issue price equal to their nominal value will act as an incentive for the Eligible Persons. This, in turn, will allow for aligning the personal interests of the Eligible Persons with the interests of the Company and, therefore, contribute to increasing the effectiveness of the Eligible Persons' measures aimed at improving the Company's financial results.

The Company notified about the Scheme in Current Report No. 18/2013 of 29 May 2013 and Current Report No. 27/2013 of 5 July 2013.

9.3 Adoption of Terms and Conditions of Management Options Scheme in 2013÷2017 by the Supervisory Board and allocation of the options

By virtue of a Resolution of 30 September 2013 the Supervisory Board adopted the Terms and Conditions of the Management Options Scheme in 2013÷2017 (the "Scheme"). The Resolution was adopted on the basis of Resolution No. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 4 July 2013 on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013÷2017, which was announced by the Company in Current Report No. 27/2013 of 5 July 2013.

By virtue of the Resolution of 30 September 2013 and as part of the Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013÷2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development.

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.

The base price is equal to the average price of shares in the Company (calculated based on the closing prices of shares) for the three months preceding the date on which the General Shareholders Meeting adopted the Resolution, i.e. 4 July 2013 and amounts to PLN 117.75.

In each subsequent calendar month the base price is indexed by 0.35%, with the first date of base price indexation being 1 August 2013, and thereafter the date of indexation being the first day of each subsequent month.

The Strike Price of Options is equal to the base price less the cumulative dividend paid by the Company from the date of exercising the Options calculated for one share, starting from the dividend for 2012.

The exercise of the allocated Options will be conditional upon the fulfilment of business criteria in line with the Company's strategic plans, in accordance with parameters defined in Resolution No. 26 the Annual General

Shareholders Meeting on 4 July 2013 and the Terms and Conditions of Management Options Scheme in 2013÷2017 and the resolution regarding the business criteria which, if met, may trigger the exercise of Options in the Management Options Scheme adopted by the Supervisory Board on 30 September 2013.

The exercise of the allocated Options will be conditional upon the satisfaction of EPS and UCCPr criteria, which will entitle the Participants to the exercise of 50% of available Options in each case.

In each year of the Scheme, the Supervisory Board shall adopt a resolution confirming satisfaction of (or failure to satisfy) the conditions entitling to the exercise of Options at a meeting held to assess the Company's financial statements for the previous financial year.

Within three years from the date of adopting resolution confirming satisfaction of the conditions, Participants may decide to exercise Options four times a year, within 10 business days after an interim report is published, except in lock-up periods. Following the exercise of the Options, half of the Warrants will be kept in the mandatory Loyalty Portfolio, with limited possibilities to convert them into shares and sell.

Number of Subscription Warrants a Participant may take up is determined as the quotient of the Option intrinsic value as at the Option exercise date (calculated as (market price of shares as at the Option exercise date less strike price) x number of Options) and the market price of shares as at the Option exercise date (Option intrinsic value/market price of the Company's shares). The Participant will be entitled to acquire the Company shares in the number equivalent to the number of warrants held.

Detailed information regarding the Scheme, including the Terms and Conditions of Management Options Scheme in 2013÷2017 was provided in Current Report No. 35/2013 of 30 September 2013.

9.4 Marketing activities conducted by the Company in 2013

The execution of marketing activities at LW BOGDANKA S.A. in 2013 was based on the following documents:

- Approved "Technical and Business Plan for Lubelski Węgiel BOGDANKA for 2013";
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" (Resolution of the Supervisory Board No. 75/VII/2010 of 28 September 2010) together with a review of the said document (Resolution of the Supervisory Board No. 32/VIII/2012 of 23 November 2012).

The following promotional activities are carried out in Lubelski Węgiel Bogdanka S.A.:

1. advertising sponsorship, sports is understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the adopted strategy, promotional reach and image of a socially-responsible organisation.
2. advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. This promotion channel applies in particular to CSR activities.
3. promotion – promotional mix for the BOGDANKA corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's marketing, PR and CSR unit, as well as outsourced to advertising agencies in case of official media campaigns.

The rationale behind the marketing activities undertaken:

1. advertising sponsorship, sports and other
   a) achieving marketing objectives

- continued creation of company image as a leader of the mining industry on the Polish and European market. An increase in the value of the Company's brands through a range of advertising services provided by sponsored entities. Obtaining high media coverage whose value in terms of advertising more than doubles the funds engaged in sponsorship;
- emphasising the pro-environmental image of the Company by promoting the accompanying brand in the market of construction materials, emphasising the ecological aspect of the activity conducted in all opinion-forming environments. Strengthening and authenticating the eco-friendly nature of the Company's brands;
- manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;
- promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;
- ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;

b) achieving social aims:

- minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company's projects;
- maintaining good relations with employees, which translates into continued high performance of work provided by them;
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland;
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy;
- activating the community of the Lublin region into sport, social and cultural events, which would not be initiated without the support of the Company;
- creating the image of a socially responsible company, caring about employees and their families;

2) promotion of the BOGDANKA corporate brand and the EkoKLINKIER associated brand

- creating BOGDANKA's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, in accordance with the applicable strategy 2x2;
- emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
- highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Since 2013, one of the common aims of the above promotional activities is to undertake promotional activities that would comply with the CSR strategy currently in place at LW Bogdanka S.A.

Execution of the 2013 advertising budget

Promotional activities for **the BOGDANKA corporate brand** focused on:

1) the product and on the brand image – from June to September 2013 the Company ran an advertising and educational campaign whose slogan read "Don't wait too long, don't pay too much – buy now", with the aim of raising customer awareness of the benefits associated with purchasing coal ahead of the start of the heating season. The campaign also promoted the benefits of using coal for heating purposes, but focused primarily on environmental factors related to the burning of dry coal in modern heating systems. The campaign generated greater demand for Bogdanka coal already in early autumn among individual buyers, but also small-sized enterprises.

2) the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2013 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

   Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA S.A. for the Lublin region as one of few large and expansive companies in the area.

   The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA S.A. at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

   The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, good relations with the general public, earning the trust of the Company's stakeholders.

In conclusion, the sponsorship of sports clubs, in particular GKS Bogdanka / Górnik Łęczna and Lubelski Węgiel KMŻ Lublin, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom promotional co-operation had been established.

Execution of promotional budgets

The implementation of the advertising budgets both of the Bogdanka corporate brand and the associated EkoKLINKIER brand stood at 94.89% and 66.48%, respectively. The sports sponsorship budget was executed in 93.55%, whereas the execution of the budget allocated to other sponsorship stood at 46.25%*.

Table 26 Advertising budget execution in 2013 [in PLN '000]

Item	Advertising budget item	Execution in 2013 [PLN net]
1	Promotion of the BOGDANKA corporate brand	759.15
2	Promotion of the EkoKLINKIER associated brand	332.38
3	Advertising sponsorship, sports	5,800.00
4	Advertising sponsorship, other*	185.00
TOTAL		**7,076.53**

9.5 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

Lubelski Węgiel BOGDANKA is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2013, the Company's Management Board allocated to donations in the form of cash and non-cash donations a total amount of PLN 510,201.41 (five hundred ten thousand two hundred and one zloty 41/100).

In 2013, the Management Board allocated funds for the following purposes:

- health care and promotion	-PLN 182,989.65
- culture, art, protection of culture and tradition	-PLN 213,609.07
- promotion of sports	-PLN 11,615.26
- public order and safety	-PLN 13,011.63
- education and science	-PLN 88,975.80

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2013 one contract of donation was concluded which required approval of the Company's Supervisory Board.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

9.6 Adoption of CSR strategy for 2012÷2015

Since 2012, the Company has applied the Corporate Social Responsibility Strategy (CSR) for 2012÷2015. This basic corporate document presents the vision and objectives that Bogdanka intends to achieve through sustainable development. It was created on the basis of key CSR challenges faced by the worldwide mining industry.

For many years now, LW BOGDANKA S.A. has been applying a number of corporate responsibility practices to its business activities. The Strategy has allowed the Company to introduce order to some of these practices and undertake new measures in such areas as:

- ethics and communication transparency in business practice — in 2013 all employees familiarised themselves with the Code of Ethics and signed a conflict of interest report;

- security and development of the company employees;
- innovative and active influence on the surroundings and the environment;
- achieving business objectives in accordance with the rules of sustainable development.

The CSR Strategy for LW BOGDANKA S.A. is also a commitment of constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

In the fourth quarter of 2013 the Company revised its existing social responsibility strategy adopted for the period 2012÷2015. The purpose of the revision was both a standard assessment of the degree of implementation of the set goals, and – first and foremost – the assessment whether these goals are update and adequate to the challenges the Company is facing. In consequence of a process, which lasted several months, at the beginning of 2014 a new strategy was adopted setting objectives and directions for activities to be undertaken in 2014÷2017. The priorities of social responsibility set therein, are now, in the management's opinion, more clear and comprehensible for the addressees and better reflect key areas of social and environmental activity. An easy perception makes the strategy a credible means in the communication within and outside the Company. At the same time a team of employees assisted by an external advisor are preparing the first CSR Report for the LW BOGDANKA Group, i.e. an opening report for 2012 and 2013, which will be published in the first half of 2014.

10 INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

On 27 June 2012, the Supervisory Board adopted a resolution on appointing Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Group's financial statements and consolidated financial statements for the first halves of 2012, 2013 and 2014,
- audit the Company's financial statements and the consolidated financial statements of the Group for 2012, 2013 and 2014.

The agreement with the auditor was concluded on 17 July 2012 for a term within which the auditor is able to carry out the audit.

The Company has not used the services of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) in previous years.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) was entered on 7 February 1995 under number 73 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Company's Supervisory Board selected the auditor in accordance with Article 32.1.4 of the Company's Articles of Association, in compliance with the applicable legislation and professional standards.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) along with Deloitte Advisory Sp. z o.o., Deloitte Doradztwo Podatkowe Sp. z o.o., Deloitte Business Consulting S.A., Deloitte Polska Sp. z o.o., Deloitte PP Sp. z o.o., Deloitte Strategy and Research Sp. z o.o., Deloitte Services Sp. z o.o. and Deloitte Legal, Pasternak, Korba i Wspólnicy Kancelaria Prawnicza Sp. k. jointly referred to as - Deloitte PL – are associated entities of Deloitte Central Europe Holdings Limited.

Table 27 Fee for the auditor authorised to audit the financial statements [PLN '000]

Deloitte PL	2013	2012
– auditing annual financial statements	60*(1)	66*(1)
– other certifying services, including a review of financial statements	40*	44*
– tax advisory services	1.4**	14**

– other services	32* 5***	123.59***
Total	**138.4**	**203.59**

* Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.

** Deloitte Doradztwo Podatkowe Sp. z o.o.

***Deloitte Advisory Sp. z o.o.

(1) of which PLN 20,000 (2012 — PLN 22,000) is payable after a preliminary audit, and PLN 40,000 (2012 — PLN 44,000) after the Company is provided with final versions of the Opinion and the Report of the audit of separate financial statements and the Opinion and the Report of the audit of consolidated financial statements

11 STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

11.1 Corporate governance rules applicable at LW BOGDANKA S.A.

In 2013, LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010. Currently, the Company applies the rules of corporate governance based on the "Code of Best Practice for WSE Listed Companies" passed with the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. "Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 1 January 2013 amendments to the Code of Best Practice for WSE Listed Companies, introduced by virtue of resolution no. 19/1307/2012 of the WSE Board of 21 November 2012, became effective. In relation to these amendments, the Company announced the deviation from the rule contained in part IV section 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 electron communication means, which consists in real-time transmission of the general meeting sessions as well as both-way real-time communication, enabling the shareholders, who are not physically present at the general meeting venue, to speak during the meeting. The Company announced the above in Corporate Governance Report 1/2013 of 29 May 2013.

11.2 The main characteristics of internal audit and risk management systems used by the LW BOGDANKA Group with regard to the process of drawing up consolidated financial statements

The Lubelski Węgiel BOGDANKA Group draws up consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;

- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional 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. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

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 is the Parent.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A chartered auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

11.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table 28 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 7 November 2013 and 20 March 2014

Shareholder	7 November 2013		20 March 2014	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,107,181	15.02	5,060,091	14.88
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny ***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,575,885	60.49	20,622,975	60.63
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

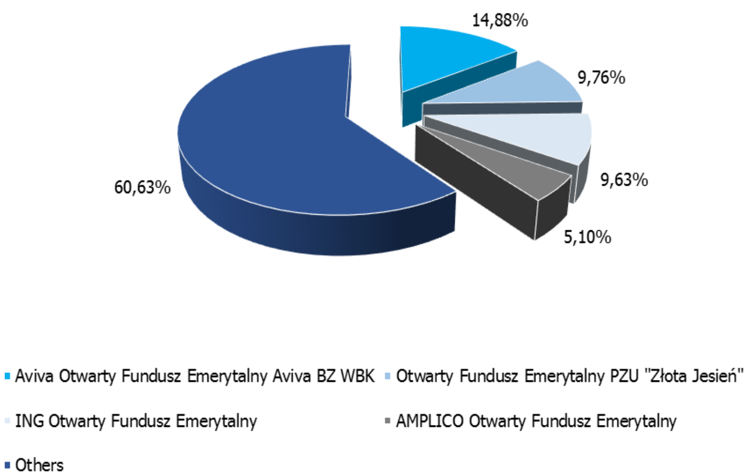
* According to the Notification received on 7 January 2014, described in Current Report No. 1/2014.

**According to the Notification received on 18 March 2010, described in Current Report No. 10/2010.

***According to the Notification received on 11 August 2010, described in Current Report No. 35/2010.

****According to the Notification received on 12 May 2010, described in Current Report No. 17/2010.

Chart 8 The shareholding structure of LW BOGDANKA S.A. as at 20 March 2014



11.4 Owners of all the securities which entitle to special control rights

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

11.5 Restrictions on exercising the voting right

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

11.6 Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

11.7 Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA S.A. shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. [Journal of Laws] 09.33.259, as amended) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

11.8 Governing bodies

11.8.1 Management Boards

11.8.1.1 Description of rules regarding appointment and dismissal of management officers of the Parent, as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting three years.

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of Management Board members

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

11.8.1.2 Management Boards for the 7th / 8th term of office

Table 29 Composition of the Management Board for the 7th / 8th term of office

<table>
<tr><th></th><th>Management Board appointed on 5 March 2010</th><th>As at 3 March 2011</th><th>As at 27 September 2012</th><th>As at 23 November 2012</th><th>As at 4 March 2013</th><th>As at 11 March 2013</th><th>As at 20 March 2014</th></tr>
<tr><td>Mirosław Taras</td><td colspan="2">President of the Management Board</td><td>Dismissal from the position of the President of the Management Board</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Zbigniew Stopa</td><td colspan="2">Vice-President of the Management Board, Technical Affairs</td><td>Acting President of the Management Board</td><td colspan="4">President of the Management Board</td></tr>
<tr><td>Krystyna Borkowska</td><td colspan="4">Vice-President, Economic and Financial Affairs, Chief Accountant</td><td colspan="2">Vice-President of the Management Board – Chief Accountant</td><td></td></tr>
<tr><td>Waldemar Bernaciak</td><td colspan="7">Vice-President of the Management Board, Trade and Logistics</td></tr>
<tr><td>Lech Tor</td><td></td><td colspan="5">Member of the Management Board, elected by the employees</td><td></td></tr>
<tr><td>Roger de Bazelaire</td><td></td><td></td><td></td><td></td><td colspan="3">Vice-President of the Management Board, Economic and Financial Affairs</td></tr>
<tr><td>Krzysztof Szlaga</td><td></td><td></td><td></td><td></td><td></td><td colspan="2">Member of the Management Board, Procurement and Investments</td></tr>
</table>

11.8.1.3 Management Board for the 8th term of office

The Management Board for the 8th term of office appointed by the Supervisory Board shall consist of:

1.	Zbigniew Stopa	- President of the Management Board
2.	Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn	- Vice-President of the Management Board, Economic and Financial Affairs
3.	Waldemar Bernaciak	- Vice-President of the Management Board, Trade and Logistics
4.	Krzysztof Szlaga	- Member of the Management Board, Procurement and Investments

11.8.1.4 Description of operations of the Parent's Management Board and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. acquiring non-current assets with a value exceeding the amount of PLN 100,000.00 (one hundred thousand zloty),
9. disposing of non-current assets with a value exceeding the amount of PLN 50,000.00 (fifty thousand zloty),
10. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

11.8.1.5 Tasks and obligations of the members of the Management Board in 2013

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards.
2. Represents the Company in relations with third parties.
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
    a) company organisation,
    b) supporting the operations of the Company's governing bodies,
    c) privatisation, Company restructuring,
    d) ownership supervision and capital investments,
    e) internal structural and ownership transformations,
    f) providing information and reports to investors, shareholders and stock exchange institutions,
    g) implementing the LW BOGDANKA S.A.'s strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company,
    h) project management,
    i) co-operation with the media and the information policy,
    j) current records archive and general secretariat,
    k) internal audit in the Company,
    l) matters of defence,
    m) HR policy, employee and social issues,
    n) occupational health and safety, training courses,
    o) future plans with regard to the development and modernisation of the production process,
    p) protection of personal data and confidential information,
    q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,

r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,

s) management of risks at the Company,

t) ethics,

u) monitoring the quality of construction ceramics.

5. Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:

   a) extracting and producing commercial coal,

   b) maintaining and developing production capacity,

   c) environmental protection, stone management and mining damage,

   d) deposit management planning,

   e) keeping surveyor and geological records, as well as production records,

   f) technical and financial advancement,

   g) organising and planning the production and development of the mine,

   h) research and implementations.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs (DE)

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Pay and insurance policies.
3. Economic and financial analyses.
4. Reporting and statistics.
5. Budgeting and controlling.
6. Supervising Company value management.
7. Supervising financial and accounting services.
8. Supervising the accountancy and settlements with business partners.
9. Economic effectiveness of investment projects.
10. Developing the rules for managing short-term securities.
11. Computerisation of the Company.
12. Inventory.

The Vice-President for Trade and Logistics (DH)

The Vice-President for Trade and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Material and machinery management.
4. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
5. Market analyses.
6. Rail transportation.

Member of the Management Board for Procurement and Investments (DI)

Member of the Management Board for Procurement and Investments organises and supervises the Company's operations in particular in the following areas:

1. Investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures.
2. Budgeting and estimating costs of services and purchases.
3. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues.
4. Waste utilisation and recycling.
5. Production and sales of construction ceramics.
6. Logistics.

11.8.1.6 Information about Management Board meetings and the resolutions adopted

In the reporting year 2013 the Management Board appointed for the 7th term held 53 minuted meetings and adopted a total of 918 resolutions, while the Management Board appointed for the 8th term held 50 minuted meetings and adopted a total of 817 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

11.8.1.7 Information on powers of proxy granted and revoked

In 2013 there was no change in the composition of the Company's proxies.

On 11 January 2013 the power of proxy for Mr Janusz Chmielewski was revoked by the Company's Management Board.

On 16 July 2013 the Management Board granted the power of proxy to Mr Sławomir Karlikowski.

11.8.1.8 Compositions of Management Boards of the subsidiaries

Łęczyńska Energetyka Sp. z o.o.

As at 31 December 2013 and as the date of submitting the Report, the Management Board of the company was composed of:

1. Dariusz Stawowy - President of the Management Board – General Director (under a Resolution of the Extraordinary Shareholders Meeting of 18 July 2013);
2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (under a Resolution of the Supervisory Board of Łęczyńska Energetyka of 15 May 2011).

EkoTrans Sp. z o.o.

- Marek Saba – President of the Management Board

RG Bogdanka Sp. z o.o.

- Janusz Chmielewski – President of the Management Board

11.8.2 Supervisory Boards of the companies

11.8.2.1 Composition of the Supervisory Board

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

The Supervisory Board operating in 2013 was appointed for the 8th term of office 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 member of the Supervisory Board for the 8th term of office. As at 31 December 2013 and as at the day this Report was submitted the composition of the Supervisory Board was as follows:

On 27 April 2012, the Annual General Shareholders Meeting appointed members of the Supervisory Board of the 8th term of office in the following composition:

1. Witold Daniłowicz · Chairman,
2. Stefan Kawalec · Vice-Chairman,
3. Raimondo Eggink · Secretary,
4. Robert Bednarski · Member,
5. Dariusz Formela · Member,
6. Eryk Karski · Member,
7. Tomasz Mosiek · Member,
8. Michał Stopyra · Member.

As at 31 December 2013 and as at the date of submitting this Report, **the composition of the Supervisory Board of Łęczyńska Energetyka** was as follows:

Composition of the Supervisory Board of Łęczyńska Energetyka sp. z o.o. as at 31 December 2013:

1. Zbigniew Stopa · Chairman,
2. Włodzimierz Czwórnóg · Vice-Chairman,
3. Teodor Kosiarski · Secretary,
4. Krzysztof Zborowski · Member,
5. Andrzej Jabłoniec · Member.

The composition of the Supervisory Board of Łęczyńska Energetyka as at the date of submitting the Report (amendments adopted by the Extraordinary Shareholders Meeting of 10 January 2014):

1. Zbigniew Stopa · Chairman,
2. Teodor Kosiarski · Vice-Chairman,
3. Krzysztof Zborowski · Secretary,
4. Andrzej Jabłoniec · Member,
5. Krzysztof Ancuta · Member.

As at 31 December 2013 and as at the date of submitting this Report, **the composition of the Supervisory Board of EkoTrans Bogdanka so. z o.o.** was as follows:

1. Waldemar Piotruk · Chairman,
2. Zbigniew Stopa · Vice-Chairman,
3. Laurencja Helena Łyszczarz · Secretary,
4. Krzysztof Szlaga · Member.

As at 31 December 2013 and as at the date of submitting this Report, **the composition of the Supervisory Board of RG Bogdanka so. z o.o.** was as follows:

1. Sławomir Karlikowski · Chairman,
2. Andrzej Jabłoniec · Vice-Chairman,
3. Anna Telecka · Secretary,
4. Krzysztof Szlaga · Member.

11.8.2.2 Description of activities of the Supervisory Board of the Parent

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

1. The responsibilities of the Supervisory Board include:
   1) assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts, as well as the assessment of the consolidated financial statements of the capital group, if such a report is prepared.
   2) assessing motions of the Management Board regarding the distribution of profits or covering of losses;
   3) submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
   4) selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
   5) determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
   6) approving of the Company's long-term strategic plans as well as changes thereto;

7) approving of the Company's annual business plans (specifying the tasks to be performed and the related budgets) as well as changes thereto,

8) adopting rules laying down the detailed procedure followed by the Supervisory Board;

9) adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,

10) approving the Management Board rules;

11) approval of the Rules of Procedure of Internal Audit and Control as well as changes thereto.

2. The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

1) acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00;

2) acquisition, sale or production of non-current assets, non-current assets in construction or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;

3) establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;

4) entering into an agreement by the Company or performing any other legal act other than those indicated in 2a) or 2b), which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, where the total value of the Company's benefits or receivables (with respect to one or more related legal actions and regardless of a period which they cover), exceeds the PLN equivalent of EUR 10,000,000, except for agreements entered into as part of the Company's core business;

5) conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association;

6) entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;

7) entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;

8) contracting liabilities, i.e. a loan, credit, security or similar, which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000, except for the issue of securities referred to in Article 52.3.5;

9) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness;

10) granting consent to the creation of foreign branches of the Company;

11) granting consent to paying to the Shareholders an advance for the expected dividend at the end of a financial year.

3. Additionally, the Supervisory Board's powers shall include in particular:

1) appointing and dismissing members of the Management Board,

2) establishing the remuneration rules and remuneration amounts to be received by the Management Board members,
3) suspending the members of the Management Board from office for important reasons,
4) delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
5) representing the Company in agreements and disputes between the Company and the Management Board members,
6) granting permission to Management Board members for accepting positions on the governing bodies of other entities,
7) approval of dismissal of a person in charge of the Company's organisational unit responsible for internal audit and control.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee and the Appointment and Remuneration Committee are standing committees at the Supervisory Board.

11.8.2.3 LW BOGDANKA S.A. Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2013.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of no less than three members, at least one of whom shall meet the requirement of being an independent member within the meaning of the Polish Act on Chartered Auditors. The task of the Audit Committee shall be 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 chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee shall include:

- monitoring the process of financial reporting and performing audits,
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered 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 Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

In 2013 the **Audit Committee** operated in the following composition:

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

11.8.2.4 Appointment and Remuneration Committee

In 2013 the Appointment and Remuneration Committee operated in the following composition:

1. Dariusz Formela — Chairman
2. Stefan Kawalec
3. Tomasz Mosiek

The Appointment and Remuneration Committee in cooperation with a legal counsel finalised draft contracts of employment for all members of the new term Management Board. In addition, the Appointment and Remuneration Committee continued the project to implement a share-based incentive scheme carried out by the previous Supervisory Board.

11.8.2.5 Strategy Committee

On 3 March 2014, a Strategy Committee was appointed in the following composition:

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

11.8.3 General Shareholders Meeting of LW BOGDANKA S.A.

11.8.3.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company’s Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company’s Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- merger, transformation or demerger of the Company,

- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
- disposal of subscribed for or acquired shares in another company.

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SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Zbigniew Stopa	President of the Management Board
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs
Krzysztof Szlaga	Member of the Management Board, Procurement and Investments

Bogdanka, 18 March 2014