

**Statement of reasons for draft resolutions
of the Extraordinary General Shareholders Meeting
of Lubelski Węgiel Bogdanka S.A.
convened for [...]**

Statement of reasons for the draft resolution on amendment to the Company's Articles of Association, the Company's entry into to Enea Group and implementation of the ENEA Group Code

On 12 April 2016, the shareholders of the Company consented to introduction of amendments to the Articles of Association by an explicit formulation of the Company's business purpose as *"conducting activity aimed at implementation of the mission and strategy of ENEA Group determining the interest of the ENEA Group"* (Article 5.1). The Company business purpose formulated in such a way: *"cannot violate legitimate interests of the Company minority shareholders in line with the principle of equal treatment of shareholders in the same circumstances pursuant to Article 20 of the Commercial Companies Code and taking account of the Best Practice of GPW Listed Companies"* (Article 5.2).

The currently proposed amendments to the Company Articles of Association are an extension of the aforementioned principles.

The Company is part of the Enea Group. Owing to Group membership, the Company has a market for a significant part of its production.

The supervisory board of each company obviously has physical limitations as regards supervision of its activity. In case of complex business entities such as the Company, a supervisory board composed of a few persons cannot supervise all the material areas of the Company activity within the scope applicable to integrated groups.

The response to the aforementioned deficiencies of the current corporate governance structure in the Company is to cover the Company with the so-called statutory group management mechanism. It is a mechanism functioning in all key Enea Group companies. This solution is also applied by other Polish leading groups.

The statutory management mechanism is centred around the amendments to the Company's Articles of Association adopted at the Extraordinary General Shareholders Meeting of the Company that was held on 12 April 2016, determining the Company's business purpose (current Article 5.1 of the Articles of Association) and ordering the Management Board to manage the Company affairs in such a way as to achieve this business purpose (current Article 20.4 of the Articles of Association).

Due to the Company's presence in the Enea Group, the process of unifying the corporate standards within the Group has also started. The company's Articles of Association are

a fundamental corporate document for a company. Planned amendments to the Articles of Association are aimed at unifying this document with the standards applied in the Enea Group while respecting the differences resulting from the Company's public nature.

Adopting by the Company General Shareholders Meeting of a resolution on accession to the Enea Group and adoption the Enea Group Code are operational measures to adjust the changes that took place on 12 April 2016 to the Enea Group corporate standards.

The Enea Group Code is a peculiar constitution of the Enea Group setting out the fundamental Group modus operandi. The Enea Group Code also specifies the core principles of conducting business activity by the Enea Group Companies in a mode consistent with the Enea Group mission and strategy in line with the provisions of mandatory provisions of law. The Company shall gain access to the possibility of business application of a number of synergies with the Enea Group which shall translate into long-term effectiveness growth of Company operations. As a result of the aforementioned changes, there should be a relevant modification of the competences of the Company Supervisory Board and General Shareholders Meeting in order for those governing bodies to be able to focus on key areas of Company operations. Owing to implementation in the Company of the statutory management mechanism, the decision-taking path for vital areas of Company operations will be shortened. Therefore, the Company Management Board will have the possibility to take key decisions faster.

Under the planned changes, the mode of the Articles of Association editing will be to a large extent simplified which will render the document more transparent and accessible for shareholders. It is proposed for detailed procedural issues regarding technical aspects of the Company's governing bodies operation to be moved to relevant terms and conditions. As a result, the provisions of the Articles of Association will refer to the most important Company matters while the technical aspects will be regulated in relevant documents.

One of the very important amendments to the Company's Articles of Association is appreciation of the Employees' role in the Company corporate life. In order to meet the expectations of the Company Employees, it is proposed for two Company Supervisory Board Members to be appointed by the General Shareholders Meeting from among the persons elected by the employees (new Article 16 of the Articles of Association). Such action will enhance transparency of the Company operations and will contribute to even greater identification of employees with the Company.

Due to the necessity to maintain by the Enea Group the participation in the Company Supervisory Board reflecting its share in the Company share capital, the aforementioned rule shall not apply to electing Supervisory Board Members by voting in separate groups, referred to in Article 385 §3-9 of the Commercial Companies Code initiated upon the request of an entity not related to the Company (new Article 16.1 second sentence of the Articles of Association). It should be emphasized here that in line with Article 385 §3 of the Commercial Companies Code, an effective request for election of the Supervisory Board by voting in separate groups may be filed by shareholders representing at least one-fifth of the share capital.

As it has been indicated above, planned amendments to the Company's Articles of Association fully meet the requirement of compliance with the corporate governance rules of GPW listed public companies. The provisions of the existing Articles 34.5-8 of the Articles of Association (Article 15 of the Articles of Association according to the new numbering) concerning the conditions of independence of some Supervisory Board Members shall not be amended.

In line with the content of the Best Practice of GPW Listed Companies, the item concerning the competence of the Supervisory Board as regards controlling the transactions with related entities was made more specific (new Article 17.1.15 of the Articles of Association). In relation to the content of the Best Practice of GPW Listed Companies, it is proposed that the criterion of considering an agreement concluded with a related entity significant be made more specific. The proposed definition refers to an explicit and well-tried criterion of agreements significance under the Regulation of the Minister of Finance on current and interim information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state of 19 February 2009 (consolidated text of 27 June 2013 (Dz. U. [Journal of Laws] of 2014, item 133)).

Regardless of the guarantees provided in current Article 5.2 of the Articles of Association (after the amendments Article 4.3), also the Enea Group Code has a number of provisions ensuring observance of legitimate interests of the Company minority shareholders, in line with the principle of equal shareholders treatment expressed in Article 20 of the Commercial Companies Code.

Pursuant to Article 15 of the Enea Group Code: *“Functioning within the Enea Group of companies with public company status [in this case: LW Bogdanka S.A. - author's note] does not infringe;; (i) public law requirements of such status, including but not limited to the disclosure duties of those companies, (ii) legitimate interests of the Company minority shareholders in line with the principle of equal treatment of shareholders in the same circumstances pursuant to Article 20 of the Commercial Companies Code and taking account of the Best Practice of GPW Listed Companies.”* Moreover, pursuant to Article 12 of the Enea Group Code: *“The Enea Group interest is pursued taking account of the legitimate interest of the Stakeholders, in line with the requirements set out in mandatory provisions of law, Articles of Association, Code and the principle of loyalty towards creditors and minority shareholders being part of corporate governance rules.”* It means that owing to the planned changes the protection standards of the Company stakeholders including but not limited to its minority shareholders and creditors shall be strengthened.

Statement of reasons for draft resolution on amendments to the Rules of Procedure of the General Shareholders Meeting

As a result of the proposed amendments to the Company's Articles of Association, also the provisions of the Rules of Procedure of the General Shareholders Meeting shall be adequately amended.

Apart from the amendments of purely technical nature related to adjustment of references of the Rules of Procedure of the General Shareholders Meeting to current numbering of the Company's Articles of Association, the proposed amendments shall include, among other things:

- explicit determination that in the case of using by the Company an electronic system for counting votes at the General Shareholders Meeting, there is no need to appoint a Ballot Counting Committee (removing former Article 10 of the Rules of Procedure and adding new section 8 to Article 9);
- explicit determination that the Chairman of the General Shareholders Meeting may decide not to read a draft resolution if the shareholders had a chance to familiarise themselves with its content prior to the beginning of the General Shareholders Meeting session. In the case of introducing amendments to a draft resolution during the General Shareholders Meeting, the Chairman may decide to read solely those excerpts of the resolution that concern the amendment (Article 12.5 according to the new numbering);
- technical rules of submitting draft resolutions by the shareholders, amendments to those drafts and the mode of voting on draft resolutions (Articles 12.6-8 according to the new numbering).

The proposed amendments comply with the current corporate practice of the Company and shall contribute to enhanced effectiveness of the course of General Shareholders Meetings.

It is expected that the moment of the entry into force of amendments to the Rules of Procedure of the General Meeting will be synchronised with the date of entry into force of amendments to the Company's Articles of Association.

Statement of reasons for draft resolution on determining the rules and amounts of remuneration of the Supervisory Board Members

On 16 November 2015, when the shareholders adopted a resolution on the rules and amounts of remuneration of the Supervisory Board Members, the provision of Article 43.3 of the Company's Articles of Association effective at that time read that the Supervisory Board Members were eligible to monthly remuneration in the amount determined by the General Shareholders Meeting. In view of the above, the Company's Articles of Association did not provide for the option for the Supervisory Board Members not to collect remuneration for their function on the Supervisory Board.

On 12 April 2016, the shareholders of the Company consented to introduction of amendments to the Articles of Association by an explicit indication that "*the Supervisory Board Members may be awarded monthly remuneration in the amount determined by the General Shareholders Meeting*". Upon registration of amendments, the effective Articles of Association of the Company

provide for a situation where some or all Supervisory Board Members shall not be awarded remuneration.

Under the draft resolution, the remuneration for holding a function on the Supervisory Board shall not be awarded to the ENEA Group representatives on the Company Supervisory Board indicated by ENEA S.A.

Setting the basis of flat-rate remuneration on a multiple of average monthly remuneration in the corporate sector without payment of awards from profit in the fourth quarter of the previous year announced by the President of the Central Statistical Office of Poland complies with the provisions of the Act on remuneration of persons managing certain legal entities of 3 March 2000 (consolidated text of 19 November 2015 (Dz. U. [Journal of Laws] of 2015, item 2099)) binding upon the Company.

Introduction of an equal amount of remuneration for the Supervisory Board Members regardless of the function held is due to the fact that the Supervisory Board performs its obligations collectively and its Members shall be equally liable under their functions on the supervisory body.