



**Statement on Application of Corporate Governance of Lubelski  
Węgiel BOGDANKA S.A**

**for the period from 1 January 2013 to 31 December 2013**

**BOGDANKA, MARCH 2014**

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## **STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE**

### **1.1 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](http://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.

### **1.2 The main characteristics of internal audit and risk management systems used by LW BOGDANKA S.A. with regard to the process of drawing up financial statements and 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.

### 1.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table 1 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 (%) <sup>*</sup>	Number of shares/ Number of votes at the GSM	Share in the share capital (%) <sup>*</sup>
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK <sup>*</sup>	5,107,181	15.02	5,060,091	14.88
Otwarty Fundusz Emerytalny PZU "Złota Jesień" <sup>**</sup>	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny <sup>***</sup>	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny <sup>****</sup>	1,734,194	5.10	1,734,194	5.10
Other	20,575,885	60.49	20,622,975	60.63
<b>Total</b>	<b>34,013,590</b>	<b>100.00</b>	<b>34,013,590</b>	<b>100.00</b>

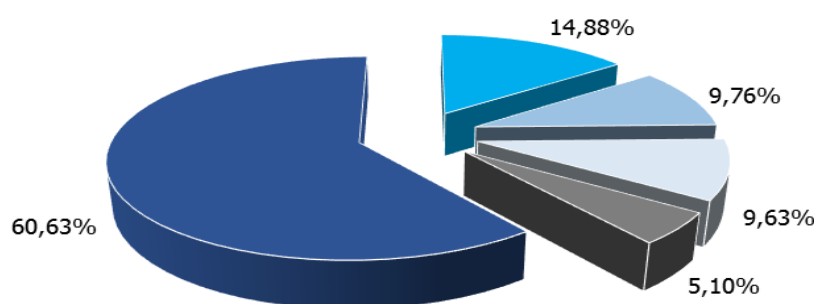
<sup>\*</sup> According to the Notification received on 7 January 2014, described in Current Report No. 1/2014.

<sup>\*\*</sup> According to the Notification received on 18 March 2010, described in Current Report No. 10/2010.

<sup>\*\*\*</sup> 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



- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK
- Otwarty Fundusz Emerytalny PZU "Złota Jesień"
- ING Otwarty Fundusz Emerytalny
- AMPLICO Otwarty Fundusz Emerytalny
- Others

#### 1.4 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.

#### 1.5 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.

#### 1.6 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.

#### 1.7 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.

## **1.8 Governing bodies**

### **1.8.1 Management Boards**

#### **1.8.1.1 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**

##### **1.8.1.1.1 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.

##### **1.8.1.1.2 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.

**1.8.1.2 Management Boards****1.8.1.2.1 Management Boards**Table 2 Composition of the Management Board for the 7<sup>th</sup> / 8<sup>th</sup> term of office

	<b>Management Board appointed on 5 March 2010</b>	<b>As at 3 March 2011</b>	<b>As at 27 September 2012</b>	<b>As at 23 November 2012</b>	<b>As at 4 March 2013</b>	<b>As at 11 March 2013</b>	<b>As at 20 March 2014</b>
Mirosław Taras	President of the Management Board		Dismissal from the position of the President of the Management Board				
Zbigniew Stopa	Vice-President of the Management Board, Technical Affairs		Acting President of the Management Board	President of the Management Board			
Krystyna Borkowska	Vice-President, Economic and Financial Affairs, Chief Accountant				Vice-President of the Management Board – Chief Accountant		
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics						
Lech Tor		Member of the Management Board, elected by the employees					
Roger de Bazelaire					Vice-President of the Management Board, Economic and Financial Affairs		
Krzysztof Szlaga						Member of the Management Board, Procurement and Investments	

**1.8.1.2.2 Management Board for the 8<sup>th</sup> term of office**

The Management Board for the 8<sup>th</sup> 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



*Węgiel BOGDANKA S.A for 2013*

3. Waldemar Bernaciak - Vice-President of the Management Board, Trade and Logistics
4. Krzysztof Szlaga - Member of the Management Board, Procurement and Investments

### **Zbigniew Stopa - President of the Management Board**

Graduate of the Faculty of Mining at AGH University of Science and Technology, where he obtained an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology in 1984. In 1997, he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He also completed numerous trainings and specialist courses. The career of Mr Zbigniew Stopa has always been connected with Lubelski Węgiel Bogdanka S.A. and its legal predecessors. In 1984-1985, he underwent a training programme underground, while from 1985 to 1987 he worked as an underground overman. In 1987, he was appointed to the position of an underground shift foreman, and afterwards, to the position of an underground section foreman. In 1991-2006, he worked as an underground chief foreman. From May to December 2006, he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006, he was appointed Vice-President of the Management Board - Production Director. From 27 September 2012 to 23 November 2012, Mr Zbigniew Stopa served as the acting President of the Management Board, and since then he has been the President of the Management Board of LW BOGDANKA S.A.

### **Roger de Bazelaire - Vice-President of the Management Board for Economic and Financial Affairs**

A French national, he graduated from HEC Paris in business and finance (Master Grande Ecole, 1978) and from Université de Paris-Sorbonne (BA in philosophy, 1979). Mr Roger de Bazelaire has lived in Poland since 1995. In addition to his native French, he is fluent in English, Spanish and Polish. Mr Roger de Bazelaire has had more than 15 years of experience in investment and operational finance with companies active in Central and Eastern Europe. He worked for Dresdner Kleinwort Capital, as an Investment Director in charge of restructuring and developing a portfolio of industrial companies (1995-2002). He subsequently joined Telekomunikacja Polska S.A., Poland's largest telecom operator listed on the Warsaw Stock Exchange, as Chief Financial Officer and member of the Management Board (2002-2005). In 2009-2011, Mr Roger de Bazelaire was Chief Financial Officer and member of the Management Board at Canal + Cyfrowy, a leading platform of pay TV in Poland. Mr Roger de Bazelaire has also gained experience as Chief Financial Officer in Russia (telecom), Romania and Bulgaria (retail). Earlier in his career, he worked six years in accounting and finance on infrastructure projects in Latin America with the French construction group Spie-Batignolles. Since 4 March 2013, he has served as the Vice-President of the Management Board for Economic and Financial Affairs at LW BOGDANKA S.A.

### **Waldemar Bernaciak - Vice-President of Management for Trade and Logistics**

Graduate of the Faculty of Mining at AGH University of Science and Technology, where in 1979 he obtained an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 2001, he graduated from the School of Controlling in Katowice. He also completed numerous specialist trainings. From the outset, his career has been in the mining industry. From 1979 to 1997, he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held positions, ranging from a trainee miner to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at Lubelski Węgiel BOGDANKA S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. From 11 January 2008, he served as the acting President of the Management Board - Managing Director. On 16 February 2008 he returned to the position of Vice-President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008, he was appointed Vice-President of the Management Board for Trade and Logistics and has held that position ever since.

### **Krzysztof Szlaga – Member of the Management Board for Procurement and Investments**

In 2001, he graduated from the University of Economics in Krakow, Faculty of Finance and Banking with an MA degree. In 2001, he also obtained a Diplom-Betriebswirt degree given by the University of Applied Sciences in Kiel (Germany), the Faculty of Economics. He has fluent command of German and English. From 2001, Mr Krzysztof Szlaga was with KPMG Deutsche Treuhand-Gesellschaft, as Audit Senior at the Assurance Commercial Clients Department. In 2004 he joined Ernst & Young Audit Spółka z o.o., as Audit Senior at the Assurance and Business Services Department. In 2005-2008, he worked as Project Manager at the Restructuring/Operational Excellence and Corporate Finance at Roland Berger Strategy Consultants Spółka z o.o. In 2008-2010, he performed as the Member of the Management Board, Supply Chain Management Director at CTL Logistics S.A. In 2010-2012, he was a Supply Chain Management Director at Ruch S.A. From 11 March 2013, Mr Krzysztof Szlaga has been a Member of the Management Board for Procurement and Investments in LW BOGDANKA S.A.

#### **1.8.1.3 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.

#### **1.8.1.3.1 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.

### **1.8.1.3.2 Information about Management Board meetings and the resolutions adopted**

In the reporting year 2013 the Management Board appointed for the 7<sup>th</sup> term held 53 minuted meetings and adopted a total of 918 resolutions, while the Management Board appointed for the 8<sup>th</sup> 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.

### **1.8.1.3.3 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.

## **1.8.2 Supervisory Boards of the companies**

### **1.8.2.1 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 8<sup>th</sup> 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 8<sup>th</sup> 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 8<sup>th</sup> 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.        |

### **1.8.2.2 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:

Węgiel BOGDANKA S.A for 2013

- 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.

### **1.8.2.3 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

### **1.8.2.4 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.

### **1.8.2.5 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

### **1.8.3 General Shareholders Meeting of LW BOGDANKA S.A.**

#### **1.8.3.1 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.

### **1.8.3.2 Information of General Shareholders Meetings held in 2013**

In 2013 two General Shareholders Meetings were held:

– Annual General Shareholders Meeting of 27 June 2013, which was held in the Company's registered office in Bogdanka

and

– Extraordinary General Shareholders Meeting of 22 November 2013, which was held in the Giełda Papierów Wartościowych w Warszawie S.A.'s (Warsaw Stock Exchange) registered office in Warsaw.

#### **Agenda of the Annual General Shareholders Meeting of 27 June 2013:**

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Electing the Ballot Counting Committee of the General Shareholders Meeting.
6. Considering the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2012.
7. Considering the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group and the Consolidated Director's Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2012.
8. Presentation of the Management Board's motion regarding the distribution of net profit for 2012.
9. Presentation of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for 2012.
10. Adopting resolutions on:
  - (a) approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2012,
  - (b) approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. for 2012,
  - (c) approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2012,

(d) approval of the Directors' Report on Operations of Lubelski Węgiel BOGDANKA Group for 2012,

(e) granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2012,

(f) approval of the Report of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for 2012,

(g) granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2012,

(h) distribution of net profit for the financial year 2012,

(i) specifying a dividend date and a date of the dividend payment.

11. Adopting a 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.

12. Adopting resolutions on amendments to the Company's Articles of Association.

13. Miscellaneous.

14. Closing of the General Shareholders Meeting.

### **Agenda of the Extraordinary General Shareholders Meeting of 22 November 2013:**

1. Opening of the General Shareholders Meeting.

2. Electing the Chairman of the General Shareholders Meeting.

3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.

4. Adopting the agenda.

5. Adopting resolutions on changes in the Supervisory Board by the General Shareholders Meeting.

6. Miscellaneous.

7. Closing of the General Shareholders Meeting. Directors' Report on Operations of LW BOGDANKA S.A. in 2013.

Information on adopted resolutions, as well as on all other documents, is available on the Company's website at [www.ri.lw.com.pl](http://www.ri.lw.com.pl), in the General Shareholders Meeting tab.

#### **1.8.3.3 Dividend policy**

The dividend policy forming part of the approved Strategy for the 2013÷2015 period provides for the payout to Company shareholders of a dividend standing at 60% of the consolidated net profit.

The adoption of such dividend payout ratio will allow the Company, on the one hand, to finance development investments using part of the net profit, while on the other hand it will guarantee the shareholders a rate of return on the investment in Company shares in the form of an above-average dividend for the coal-mining sector.

The change in the Management Board's recommendation with regard to the dividend payout ratio can be attributed to the change in the assumptions concerning:

1. Company growth and further expansion plans;
2. execution of the adopted investment programme;
3. plans to maintain adequate cash flow;

as well as:

1. net profit recorded in the Company's separate financial statements;
2. projected investment expenditure and other capital outlays;
3. current possibilities and costs of obtaining debt financing;
4. decision taken by the General Shareholders Meeting establishing a dividend payout rate different to that recommended by the Management Board;
5. other factors having significant impact on the Company's financial standing.

#### **1.8.3.3.1 Dividend for 2005**

Under resolution of 17 August 2006 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2006 on the distribution of net profit for 2005 generated by the Company, the net profit of PLN 72,536,230 was allocated in 60.03%, i.e. in the amount of PLN 43,541,710, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 18.92.

#### **1.8.3.3.2 Dividend for 2006**

Under resolution of 17 August 2007 regarding the Management Board's request concerning the amendment of a resolution adopted by the Annual General Shareholders Meeting of 29 June 2007 on the distribution of net profit for 2006 generated by the Company, the net profit of PLN 84,218,680 was allocated in 59.38%, i.e. in the amount of PLN 50,008,530, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 21.73.

#### **1.8.3.3.3 Dividend for 2007**

Under resolution of 25 April 2008 regarding the opinion on the Management Board's request concerning the distribution of net profit for 2007 and the undistributed profit from previous years, the net profit generated by the Company of PLN 75,262,490 was allocated in 7.49%, i.e. in the amount of PLN 5,638,330, for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 0.24. The description of allocation of shares in 2007 is presented in the Financial Statements.

#### **1.8.3.3.4 Dividend for 2008**

On 31 March 2009, the Management Board of LW BOGDANKA S.A. adopted a resolution on making a request to the General Shareholders Meeting regarding the distribution of net profit for 2008. The Management Board proposed that the net profit generated by the Company in the amount of 118,370,160 was allocated in full to the capital reserve of the Company for the purpose of financing

investments planned for 2009, in line with the Technical and Economic Plan adopted by the Company for 2009. On 17 April 2009, the Supervisory Board adopted a resolution accepting the proposition of the Management Board regarding the distribution of net profit for 2008. Under the resolution of 15 May 2009 regarding the distribution of net profit for 2008 generated by the Company amounting to PLN 118,370,160, 75.05%, i.e. PLN 88,832,460 was allocated for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 3.86.

#### **1.8.3.3.5 Dividend for 2009**

In pursuance of the strategy of LW BOGDANKA S.A. which assumes incurring significant investment outlays, the Management Board recommended to the General Shareholders Meeting that a dividend for 2009 should not be paid. Under resolution of the Company shareholders of 10 June 2010, the net profit earned by LW BOGDANKA S.A. in 2009 in the amount of PLN 192,052,876.83 was fully earmarked for the reserve capital of the Company, allocated for financing investments planned to be implemented in 2010.

#### **1.8.3.3.6 Dividend for 2010**

On 10 May 2011, the General Shareholders Meeting adopted a resolution regarding distribution of net profit for 2010.

The General Shareholders Meeting decided to distribute the net profit generated by the Company in 2010 amounting to PLN 227,362,313.44 (two hundred twenty-seven million three hundred sixty-two thousand three hundred and thirteen zlotys 44/100) as follows:

1. The amount of PLN 47,619,026.00 (forty-seven million six hundred nineteen thousand and twenty-six zlotys) - for distribution to the Company's shareholders, i.e. to pay a dividend of PLN 1.40 (one zloty 40/100) per share.
2. The amount of PLN 179,743,287.44 (one hundred seventy-nine million seven hundred forty-three thousand two hundred and eighty-seven zlotys 44/100) - to the Company's reserve capital.

Number of shares subject to dividend is 34,013,590.

Further, the General Shareholders Meeting scheduled the dividend date to take place on 29 July 2011, and the dividend payment date - on 26 August 2011.

#### **1.8.3.3.7 Dividend for 2011**

On 19 March 2012, the Company's Management Board adopted a resolution on a motion to the General Shareholders Meeting regarding distribution of net profit for 2011.

In compliance with the above resolution, the Management Board, taking into consideration the financial needs connected with the Company's development, implementation of the adopted investment programme and the necessity of providing a proper level of the Company's financial liquidity, proposes to distribute the net profit generated by the Company in 2011 amounting to PLN 218,977,735.69 (two hundred and eighteen million nine hundred and seventy-seven thousand seven hundred thirty five zlotys 69/100) as follows:

1. The amount of PLN 68,027,180.00 (sixty-eight million twenty-seven thousand one hundred and eighty zlotys) – for distribution to the Company's shareholders.



2. The amount of PLN 150,950,555.69 (one hundred and fifty million nine hundred and fifty thousand five hundred and fifty-five zlotys 69/100) - to the Company's reserve capital.

Number of shares subject to dividend is 34,013,590.

#### **1.8.3.3.8 Dividend for 2012**

On 27 June 2013 the Annual General Shareholders Meeting adopted a resolution on the distribution of net profit for 2012.

The net profit generated by the Company in 2012 amounting to PLN 287,026,808.52 (two hundred eighty-seven million twenty-six thousand eight hundred and eight zlotys 52/100), was distributed by the Annual General Shareholders Meeting as follows:

1. The amount of PLN 172,108,765.40 (one hundred two million one hundred eight thousand seven hundred and sixty-five zlotys 40/100) shall be distributed among the shareholders, i.e. paid out as dividend of PLN 5.06 (five zlotys 06/100) per share.
2. 2. The amount of PLN 114,918,043.12 (one hundred fourteen million nine hundred eighteen thousand and fortythree zlotys 12/100) shall be allocated towards the Company's capital reserve.

Number of shares subject to dividend is 34,013,590.

The General Shareholders Meeting set the dividend date for 15 September 2013 and dividend payment date for 1 October 2013, as per a request filed by a Company's shareholder during the Annual General Shareholders Meeting.