



LUBELSKI WĘGIEL
„BOGDANKA”
SPÓŁKA AKCYJNA

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

for the period from 1 January 2012 to 31 December 2012

BOGDANKA, MARCH 2013

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STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

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

In 2012, 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 Supervisory 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 23 June 2009 the Company published Current Report No. 7/2009 on non-application of selected rules of the Code of Best Practice for WSE Listed Companies by Lubelski Węgiel BOGDANKA S.A.

According to the Corporate Governance Report No. 1/2010 of 15 June 2010 the following rules of the Code of Best Practice for WSE Listed Companies were not applied permanently at the Company until that day: Rule 6 of part III and Rule 7 of part III. On 15 June, the Company, fulfilling the obligation imposed by Article 29.3 of the WSE Rules hereby announces that due to cessation of reasons for not complying with rules No. 6 and 7 of part III of the Code of Best Practice for WSE Listed Companies as described in Current Report No. 7/2009 of 23 June 2009, the Company will comply with all the rules of the corporate governance stipulated in the Code of Best Practice.

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

Lubelski Węgiel BOGDANKA S.A. draws up separate and 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 entity.

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 30 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 7 November 2012 and 21 March 2013

Shareholder	7 November 2012		21 March 2013	
	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 [*]	5,014,644	14.74	5,014,644	14.74
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	20,668,422	60.77	20,668,422	60.77
Total	34,013,590	100.00	34,013,590	100.00

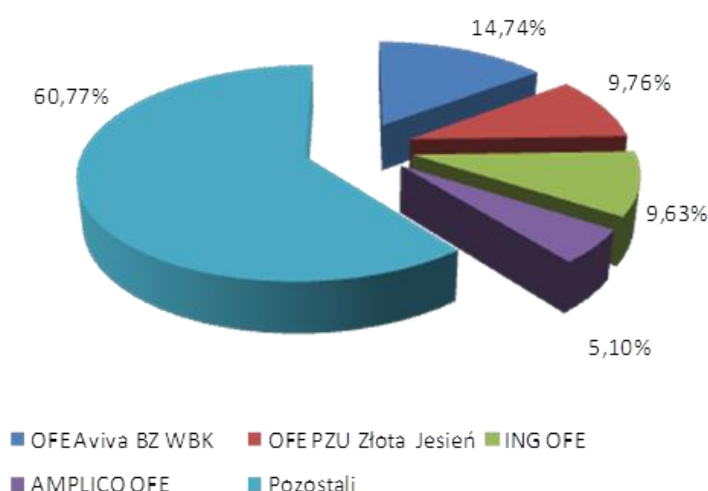
^{*} According to the Notification received on 25 March 2010, described in Current Report No. 11/2010.

^{**}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: The shareholding structure of LW BOGDANKA S.A. as at 21 March 2013.



[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. 09.33.259) 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 of the companies

1.8.1 Management Boards

1.8.1.1 Description of rules regarding appointment and dismissal of management officers at the Parent Undertaking 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 3 (three) years.

As long as over a half of the shares in the Company were held by the State Treasury, the members of the Management Board (with the exception of the Management Board member elected by the employees) were appointed by the Supervisory Board following a verification procedure, pursuant to the Regulation of the Council of Ministers on the verification procedure for positions of management board members in certain companies, dated 18 March 2003 (Dz. U. No. 55, item 476, as amended).

The Supervisory Board conducts qualification procedure in the event that circumstance justifying the appointment of a Management Board member occurs.

The conclusion of the election and recognition of its validity shall take place prior to the date of the General Shareholders Meeting accepting the statements, balance sheet and the profit and loss account for the final year of the Management's Board term of office.

Employees shall elect members of the Management Board directly in a general election, in secret ballot.

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.

1.8.1.2 Compositions of the Management Boards

Table 31 Composition of the Management Board for the 7th term of office

	Management Board appointed on 5 March 2010	As at 3 March 2011	As at 27 September 2012	As at 23 November 2012	As at 4 March 2013	As at 11 March 2013
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
*The mandates of the members of the Management Board expire on the date of the Annual Shareholders Meeting which approves the financial statements of the Company for 2012, i.e. not later than 30 June 2013.						

On 27 September 2012, the Supervisory Board, dismissed Mr Mirosław Taras from the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A. Moreover, the Supervisory Board acting on the basis of Article 25.1 of the Company's Articles of Association, adopted a resolution on appointing Mr Zbigniew Stopa as an Acting President.

On 23 November 2012 the Company's Supervisory Board appointed Mr Zbigniew Stopa for the President of the Management Board of Lubelski Węgiel Bogdanka S.A.

As at 31 December 2012, the composition of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the 7th term was as follows:

1. Zbigniew Stopa - President of the Management Board
2. Krystyna Borkowska - Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant
3. Waldemar Bernaciak - Vice-President of the Management Board, Trade and Logistics
4. Lech Tor - Member of the Management Board elected by the employees

1.8.1.3 Description of operations of the Parent Undertaking's Management Board and authorisations

Pursuant to the Parent Undertaking'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. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. 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.

11.8.1.3.1 Tasks and obligations of the members of the Management Board in 2012

In accordance with the Company's Organisational Rules, the President of the Management Board:

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 LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
 - h) co-operation with the media and the information policy,
 - i) current records archive and general secretariat,
 - j) internal audit in the Company,
 - k) matters of defence,
 - l) HR policy, employee and social issues,
 - m) occupational health and safety, training workshops,
 - n) diversification of the Company's operations and EU integration,
 - 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) monitoring the quality of construction ceramics.

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 holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Economic effectiveness of investment projects.
3. Pay and insurance policy.
4. Economic and financial analyses.
5. Reporting and statistics.
6. Budgeting and controlling.
7. Supervising Company value management.
8. Providing financial and bookkeeping services.

9. Accounting and settlements with business partners.
10. Continuous stocktaking.

Major responsibilities of the **Vice-President for Economic and Financial Affairs as the Chief Accountant** include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.
2. Drawing up the required current financial statements.
3. Drawing up the annual financial statements.
4. Supervising the organisation of management accounting.
5. Compiling internal reports for the Company's governing bodies.
6. Ongoing analysis of settlements (accounts receivable and liabilities).
7. Approving documents for payment and posting.
8. Submitting motions to the Company's Management Board regarding issues requiring its decision.
9. Developing the rules for managing short-term securities.
10. Organising the work related to financial management in terms of cash accounting and settlements with third parties.

The Vice-President for Commerce and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.
8. Computerisation of the Company.
9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

The Vice-President for Technical Affairs organises and supervises the Company's operations in the following areas:

1. Investment and refurbishment activities.
2. Cost estimation and service valuation.
3. Material and machinery management.
4. Environmental protection and utilisation of pit waste.
5. Maintaining and developing production capacity.
6. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
7. Deposit management planning.
8. Trade coal mining and production.
9. Keeping surveyor and geological records, as well as production records.

10. Technical and economic progress.
11. Organising and planning production and mine development.
12. Research and implementation.

Member of the Management Board elected by employees is responsible for:

1. Co-operating with the workforce and the trade unions active in the Company.
2. Social dialogue in the Company.
3. Creating conditions for better use of the Company's social potential (internal marketing).
4. Supervising the correct use of the funds available from the Company's Social Fund.
5. Performing other duties imposed by the resolutions of the Management Board.

11.8.1.3.2 Tasks and obligations of the members of the Management Board in accordance with the Organisational Rules in effect as from 15 February 2013

In accordance with the Company's Organisational Rules (uniform text of 15 February 2013) the responsibilities of individual members of the Management Board are as follows:

President of the Management Board:

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 LW BOGDANKA S.A.'s strategy and the Company's long-term plans as well as implementing the strategic management and project management at the Company,
 - h) co-operation with the media and the information policy,
 - i) current records archive and general secretariat,
 - j) internal audit in the Company,
 - k) matters of defence,
 - l) HR policy, employee and social issues,
 - m) occupational health and safety, training workshops,
 - n) diversification of the Company's operations and EU integration,
 - 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) monitoring the quality of construction ceramics.
5. Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:
- a) environmental protection and utilisation of pit waste.
 - b) maintaining and developing production capacity.
 - c) deposit management planning.
 - d) trade coal mining and production.
 - e) keeping surveyor and geological records, as well as production records.
 - f) technical and economic progress.
 - g) organising and planning production and mine development.
 - h) research and implementation.

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 holds responsibility for the Company's operations in the following areas:

1. Pay and insurance policy.
2. Economic and financial analyses.
3. Reporting and statistics.
4. Budgeting and controlling.
5. Supervising Company value management.
6. Economic effectiveness of investment projects.
7. Developing the rules for managing short-term securities.
8. Computerisation of the Company.

Major responsibilities of the Vice-President of the Management Board - Chief Accountant include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.

Managing the Company's finances.

2. Supervising the work of subordinate departments, including in particular:
 - a. Organisation of accounting activities at the Company.
 - b. Drawing up the required current and annual financial statements.
 - c. Compiling internal reports for the Company's governing bodies with respect to data from the financial statements.
 - d. Ongoing analysis of settlement accounts (accounts receivable and liabilities).

- e. Approving documents for payment and posting.
- f. Organising the work related to financial management in terms of cash accounting and settlements with third parties.
- g. Providing financial and bookkeeping services.
- h. Accounting and settlements with business partners.
- i. Continuous stocktaking.

The Vice-President for Commerce 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.
- 7. Logistics.

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.

Member of the Management Board elected by employees is responsible for:

- 1. Co-operating with the workforce and the trade unions active in the Company.
- 2. Social dialogue in the Company.
- 3. Creating conditions for better use of the Company's social potential (internal marketing).
- 4. Supervising the correct use of the funds available from the Company's Social Fund.
- 5. Performing other duties imposed by the resolutions of the Management Board.

1.8.1.4 Information on powers of proxy granted and revoked at LW BOGDANKA S.A.

In 2012 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.

11.8.1.5 Composition of the Management Board of Łęczyńska Energetyka Sp. z o.o.

Łęczyńska Energetyka Sp. z o.o.

As at 31 December 2012 and as at the day of submitting the Report, the Management Board of the subsidiary company was composed of:

1. Marek Martyn - President of the Management Board (pursuant to the Resolution of Annual Shareholders Meeting of Łęczyńska Energetyka of 27 May 2011)
2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 15 May 2011).

1.8.2 Companies' Supervisory Boards

11.8.2.1 Composition

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.

2012 was the last year of operation of the Supervisory Board for the 7th term of office in the following composition:

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

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 of the Supervisory Board,
2. Stefan Kawalec · Vice-Chairman of the Supervisory Board,
3. Raimondo Eggink · Secretary of the Supervisory Board,
4. Robert Bednarski · Member of the Supervisory Board,
5. Dariusz Formela · Member of the Supervisory Board,
6. Eryk Karski · Member of the Supervisory Board,
7. Tomasz Mosiek · Member of the Supervisory Board,

This was also the composition of the Supervisory Board of LW Bogdanka S.A. as at 31 December 2012, i.e. as at the day of submitting the Report.

11.8.2.2 Description of activities of the Parent Undertaking's Supervisory Board

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. The above applies also to 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 tangible fixed assets, fixed assets in construction or intangible assets which are not described 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 1,000,000;
- 3) establishment of a security regarding any liability of the Company or a third party, which is not described 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 250,000;
- 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 5,000.00, 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. The equivalent of the amount is calculated at the exchange rate quoted by the National Bank of Poland as at the date of concluding the agreement;

- 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, of which all material terms and conditions are not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, except for the issue of securities referred to in Article 52.3.5, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000;
 - 9) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness.
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 consent to the creation of foreign branches of the Company,
 - 7) granting permission to Management Board members for accepting positions on the governing bodies of other companies,
 - 8) 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 Audit Committee at LW BOGDANKA S.A.

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2012.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of three members, at least two of whom shall be independent members, and at least one of them possesses competence with regard to accounting or auditing. 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.

Composition of the Audit Committee until 27 April 2012 was as follows:

- | | | | |
|---|--------------------|---|-----------|
| 1 | Ewa Pawluczuk | – | Chairman |
| 2 | Jadwiga Kalinowska | – | Secretary |
| 3 | Eryk Karski | – | Member |

As a new composition of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. was appointed on 27 April 2012, during the first meeting of the new Supervisory Board held on 21 May 2012, the Audit Committee was appointed in the following composition:

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

The Audit Committee established itself by means of appointing its chairman, Mr Eryk Karski.

11.8.2.4 Appointment and Remuneration Committee

On 27 June 2012, the Supervisory Board appointed the Appointment and Remuneration Committee composed of:

1. Dariusz Formela
2. Stefan Kawalec
3. Tomasz Mosiek

In connection with the dismissal of Mr Mirosław Taras from the position of President of the Management Board of LW BOGDANKA S.A. on 27 September 2012, the Appointment and Remuneration Committee participated both in selection of the company that could be a personal adviser to the Supervisory Board in the recruitment process as well as in the recruitment of new members of the Management Board of the Company. 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 continues the work of the previous term Supervisory Board on implementing a share-based incentive programme in the Company.

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.