



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

for the period from 1 January 2011 to 31 December 2011

BOGDANKA, MARCH 2012

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1. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

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

In 2011 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. 20/1287/2011 of 19 October 2011, effective from 1 January 2012.

"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 LW BOGDANKA S.A. 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 tax 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 12 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 20 March 2012 and 9 November 2011

Shareholder	20 March 2012		9 November 2011	
	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

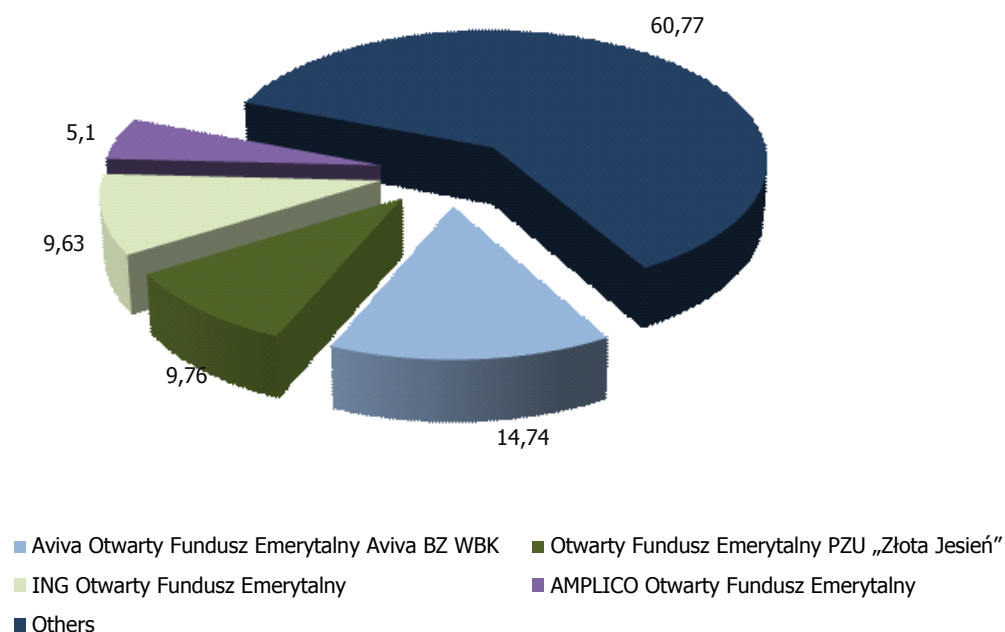
* According to the Notification received on 25 March 2010, described in Current Report No. 11/2010.

**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 20 March 2012.



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

1.8.1. Management Board

1.8.1.1. Description of rules regarding appointment and dismissal of management officers 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. Composition of the Management Board

Management Board - 7th term of office

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office (2010-2012) of the Company's Management Board:

- | | | |
|----|--------------------|---|
| 1. | Mirosław Taras | President of the Management Board |
| 2. | Krystyna Borkowska | Vice-President for Economic and Financial Affairs, Chief Accountant |
| 3. | Zbigniew Stopa | Vice-President for Technical Affairs |
| 4. | Waldemar Bernaciak | Vice-President for Trade and Logistics |

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 3 March 2011 the Company's Supervisory Board appointed Mr Lech Tor for the seventh term of office of the Company's Management Board. From 3 March 2011, Mr Lech Tor performs the function of the Management Board member elected by the employees.

As at 31 December 2011, the composition of the Management Board of Lubelski Węgiel BOGDANKA S.A. of the 7th term was as follows:

- | | | |
|----|--------------------|---|
| 1. | Mirosław Taras | President of the Management Board |
| 2. | Krystyna Borkowska | Vice-President for Economic and Financial Affairs, Chief Accountant |
| 3. | Zbigniew Stopa | Vice-President for Technical Affairs |
| 4. | Waldemar Bernaciak | Vice-President for Trade and Logistics |
| 5. | Lech Tor | Member of the Management Board elected by the employees |

Mirosław TARAS, M.Sc.Eng. - President of the Management Board

Mirosław Taras graduated in 1980 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining, specialising in Mine Design and Construction. In 1996 he completed postgraduate studies at the Warsaw School of Economics in the field of Corporate Finance Management. Attended a wide range of training sessions, courses and workshops (including finance management, sales, negotiations, controlling and accounting), as well as successfully completed a course for supervisory board members of State Treasury companies. His professional career began in 1979 with a position of an industrial systems fitter at PIP INSTAL Lublin. From 1980 to 1991 he held a number of mining supervisory positions at PP KWK Bogdanka, starting with a trainee, through to an underground On-Duty Engineer. In 1992 he served as the

Vice-President of the Management Board of PPH Min-Water Sp. z o.o., while in 1992-1998 he was employed at KWK Bogdanka S.A. at the position of Chief Foreman. From 1997 to 1999 he served as the Vice-President of the Management Board at Lubcoal S.A. In 1999-2001 he held the position of Vice-President of the Management Board at Grupa Kapitałowa Lubelski Węgiel S.A. From 2001, for a period of two years, he served as the Director of the Construction Ceramics Plant, followed by the positions of the Sales and Rail Transportation Director and Deputy Director, as well as a Commercial Proxy at Lubelski Węgiel BOGDANKA S.A. Since 16 February 2008, Mirosław Taras has served as the President of the Management Board of Lubelski Węgiel BOGDANKA S.A.

Mirosław Taras holds the following qualifications recognized by the State Mining Authority: Higher-rank mining supervisor (1986).

Zbigniew STOPA, M.Sc.Eng. - Vice-President of the Management Board for Technical Affairs

Zbigniew Stopa graduated in 1984 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree, specialising in Deposits Exploitation Technology. In 1997 he completed postgraduate studies at the Central Mining Institute in Katowice in the field of Occupational Health and Safety Management. He attended a wide range of training sessions and specialist courses (the fundamentals of economics, human resource management, finance for managers) as well as completed a course for supervisory board members of State Treasury companies.

Zbigniew Stopa's career 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 towards the end of that year, 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.

Zbigniew Stopa holds the following qualifications recognized by the State Mining Authority: head of the mining works department (1997), higher-rank mining supervisor (1991). In 2007 he was appointed a member of the Mining Occupational Health and Safety Committee affiliated with the State Mining Authority in Katowice by the President of the State Mining Authority.

Waldemar BERNACIAK, M.Sc.Eng. - Vice-President of the Management Board for Trade and Logistics

Waldemar Bernaciak graduated in 1979 from the Faculty of Mining at AGH University of Science and Technology with an M.Sc. Eng. degree in mining and geology, specialising in Mine Design and Construction. In 1999 he completed postgraduate studies in the field of management and logistics at the University of Illinois at Urbana – Champaign. In 2001 he graduated from the School of Controlling in Katowice. Furthermore, he attended a number of specialist training courses (including a course on planning and production management in a coal mine at the Silesian University of Technology, logistics, materials management and stock optimisation). He also completed a course for supervisory board members of State Treasury companies.

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 various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist 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. Next, for several months 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.

Waldemar Bernaciak holds the following qualifications recognized by the District Mining Authority in Lublin: Lower-rank mining supervisor, intermediate-rank mining supervisor, higher-rank mining supervisor, mining works manager.

Krystyna BORKOWSKA, M.A.- Vice President of the Management Board for Economic and Financial Affairs, Chief Accountant

Krystyna Borkowska graduated in 1975 from the Faculty of Production Economics at the University of Gdańsk, specialising in Finance. In 2002 she obtained a Controller's Diploma from the School of Controlling in Katowice. In 2004 she completed postgraduate studies at the Warsaw School of Economics at the Chair of Management in Economy, in the field of European Standards in Accounting and Finance. In 2007 she completed postgraduate studies in Public Procurement at the European School of Law and Administration in Warsaw.

Krystyna Borkowska's career began in 1975 with an internship at Koszalińskie Przedsiębiorstwo Ceramiki Budowlanej O/Bytów. In 1975 - 1976 she worked as a Senior Financial Clerk in Gdańskie Przedsiębiorstwo Ceramiki Budowlanej. For three years, starting from June 1976, she held the position of Head of Economic Planning at Zakład Produkcji Magnetofonów in Lubartów. From 1979 to 1998 she was employed by Przedsiębiorstwo Robót Górniczo - Budowlanych PROGOBEX S.A. in Łęczna, holding a vast range of positions there, from a Planning Specialist, through managerial functions in the economic and finance division, the position of Deputy Director for Economic and Financial Affairs, Chief Accountant, to the Vice-President of the Management Board - Chief Accountant. Since 1998 Krystyna Borkowska has been involved with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. She started off as the Head of Accounts - Deputy Chief Accountant and in June 1999 was appointed Vice-President of the Management Board for Economic and Financial Affairs. Since 2001 she held the position of Chief Economist. In 2004 she became Vice-President for Economic and Financial Affairs. For the period of two months in 2007 she performed duties of Chief Economist. Since 2007 she has served as Chief Accountant and, additionally, since 26 April 2008, as the Vice-President of the Management Board for Economic and Financial Affairs.

Lech Tor – Member of the Management Board elected by employees

Mr Lech Tor completed higher professional education with a bachelor's degree.

He is a graduate of the John Paul II Catholic University of Lublin, Faculty of Social Sciences, specialisation: management and marketing (he graduated in 2007).

He completed secondary education at the Electric Technical School in Zamość in 1997 with a title of technical electrician, specialisation: general electromechanics.

Since 4 February 1988 Mr Lech Tor has been an employee at Lubelski Węgiel BOGDANKA S.A. in Bogdanka in the position of an underground electrical devices fitter. He is a holder of Polish Electricians Association license and intra-company authorisations to operate electrical devices up to 10 kV. In 2010 he also completed DEX I training for electrical maintenance supervisors, conducted by Central Mining Institute in Katowice.

1.8.1.3. Description of operations 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. 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.

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.

1.8.1.4. Information about Management Board meetings and the resolutions adopted

In the reporting year 2011 the Management Board appointed for the 7th term held 95 minuted meetings and adopted the total of 1,493 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.

1.8.1.5. Information on powers of proxy granted and revoked

In 2011 there was no change in the composition of the Company's proxies.

1.8.2. The Supervisory Board

Appointment and removal from office of the Supervisory Board members

The rules concerning appointment and removal from office of the Supervisory Board members of the Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.

In accordance with the Articles of Association of LW BOGDANKA S.A., the Supervisory Board consists of 5 (five) to 9 (nine) members. The members of the Supervisory Board are appointed and removed from office by the General Shareholders Meeting for a joint term of office of three years.

A Supervisory Board member shall file his/her resignation in writing to a member of the Management Board or to a proxy. The Management Board member or the proxy who receives the resignation shall promptly notify the other members of the Management and Supervisory Boards of the same.

The mandates of the Supervisory Board Members expire not later than on the date when the General Shareholders Meeting approves the report on operations and the financial statements for the last full financial

year when the Supervisory Board Members performed their function.

Members of the Supervisory Board may be removed from office by the General Shareholders Meeting at any time.

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.

Supervisory Board – 7th term of office

In 2011 the Supervisory Board for the 7th term of office operated in the following composition:

- | | | |
|----|--------------------|------------------------------|
| 1. | Eryk Karski | - Chairman of the Board |
| 2. | Stefan Kawalec | - Vice-Chairman of the Board |
| 3. | Jadwiga Kalinowska | - Secretary of the Board |
| 4. | Ewa Pawluczuk | - Member of the Board |
| 5. | Adam Partyka | - Member of the Board |
| 6. | Andrzej Lulek | - Member of the Board |

The mandates of the members of the Supervisory Board expire on the date of the Extraordinary General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2011, i.e. not later than 30 June 2012.

As at the submission of this Report, i.e. 20 March 2012, and as at 31 December 2011 the Supervisory Board was in office in the above composition.

1.8.2.2. Description of activities

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.

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. issuing opinions on the Company's long-term strategic plans;
7. issuing opinions on annual business plans (specifying the tasks to be performed and the related budgets),
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;

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 or disposal of property, plant and equipment not related to the Company's core business, where the value of a single transaction exceeds one-twentieth of the Company's share capital,
 - 3) 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
 - 4) 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;
 - 5) 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;
 - 6) issue of bonds, excluding issue of securities referred to in Article 52.3.5 of the Company's Articles of Association;
 - 7) 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.

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 is a standing committee at the Supervisory Board and is a sole committee operating at the Company.

1.8.2.3. Audit Committee

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:

- 1) monitoring the process of financial reporting and performing audits,
- 2) monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- 3) 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,
- 4) discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
- 5) providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

The Committees of the Board shall submit to the Board periodic reports on their operations. As at the date of submitting this Report in, i.e. as at 20 March 2012, and as at 31 December 2011, the Audit Committee operated in the following composition:

As the new composition of the Supervisory Board was appointed, on 6 July 2010 the Supervisory Board appointed the Audit Committee in the following composition:

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

Eryk Karski and Ewa Pawluczuk are independent members of the Audit Committee. In 2011, there were no changes in the composition of the Audit Committee.

1.8.3. General Shareholders Meeting

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 (www.lw.com.pl), 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 2011

In 2011 one General Shareholders Meetings was held – Annual General Shareholders Meeting on 10 May 2011 held in the Company's registered office in Bogdanka.

Agenda:

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 the Resolution on the election the Ballot Counting Committee of the General Shareholders Meeting.
6. Recognising the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2010.
7. Recognising 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 2010.
8. Presentation of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2010.
9. Presentation of the Management Board's motion regarding the distribution of net profit for 2009.
10. Presentation of the Supervisory Board's Report on the assessment of the Company's the Financial Statements and Directors' Report on Operations for 2010, and the Management Board's motion regarding the distribution of net profit.
11. Presentation of the Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Director's Report on Operations of the Group for 2010
12. Adopting resolutions on:
 - (a) approval of the Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2010,
 - (b) approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2010,
 - (c) approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. Group for 2010,
 - (d) approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2010,
 - (e) granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2010,

- (f) approval of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2010,
- (g) granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2010,
- (h) distribution of net profit for the financial year 2010,
- 13. Adopting a resolution on proposed amendments to the Company's Articles of Association.
- 14. Miscellaneous.
- 15. Closing of the General Shareholders Meeting

Information on adopted resolutions, as well as on all other documents, is available on the Company's website at www.lw.com.pl, in the General Shareholders Meeting tab.

1.8.3.3. Dividend policy

In accordance with the Articles of Association of LW BOGDANKA S.A., the manner of allocating the net profit of the Company is specified in a resolution of the General Shareholders Meeting.

The amount of profit to be distributed as dividend should be divisible by the total number of the Company shares.

The General Shareholders Meeting may allocate a portion of the profit towards:

- 1) dividend for the shareholders, with the proviso that the amount of profit to be distributed as dividend should be divisible by the total number of the Company shares,
- 2) other long-term capitals and funds,
- 3) other purposes defined by the General Shareholders Meeting by way of a resolution.

The dividend record date shall be the date of the Annual General Shareholders Meeting for the financial year, with the proviso that the dividend payment shall be made within two months from the dividend record date.

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.

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.

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.

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.

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.

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.

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.

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Mirosław Taras

Prezes Zarządu



Krzyszyna Borkowska

Z-ca Prezesa Zarządu ds.
Ekonomiczno-Finansowych -
Główny Księgowy



Zbigniew Stopa

Z-ca Prezesa Zarządu ds.
Technicznych



Waldemar Bernaciak

Z-ca Prezesa Zarządu ds.
Handlu i Logistyki



Lech Tor

Członek Zarządu wybierany
przez pracowników



Bogdanka, 19 March 2012