



LUBELSKI WĘGIEL „BOGDANKA”

SPÓŁKA AKCYJNA

BOGDANKA, 21-013 PUCHACZÓW

**REPORT OF THE SUPERVISORY BOARD
OF LUBELSKI WĘGIEL BOGDANKA S.A.
FOR THE FINANCIAL YEAR 2013**

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I. Term of office and composition of the Supervisory Board

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. (hereinafter referred to as the "Supervisory Board", or the "Board") exercises permanent supervision over LW Bogdanka in all areas of the Company's operations.

The Supervisory Board is appointed for a three-year joint term of office. In accordance with the Company's Articles of Association, the Supervisory Board is composed of 5 to 9 members appointed and removed from office by the General Shareholders Meeting. The Supervisory Board operates on the basis of the following regulations:

- the Polish Commercial Companies Code;
- the Articles of Association of Lubelski Węgiel BOGDANKA S.A.,
- the Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.

While performing its activities, the Supervisory Board also complies with the rules of corporate governance stipulated in the "Code of Best Practice for WSE Listed Companies".

The Supervisory Board performs its tasks on the basis of special powers granted to it by the Company's Articles of Association and the Rules of Procedure of the Supervisory Board.

In 2013 the Supervisory Board of the 8th term of office operated, appointed by the Annual General Shareholders Meeting on 27 April 2012. On 22 November 2013 the Extraordinary General Shareholders Meeting appointed Mr Michał Stopyra as a new member of the Supervisory Board of the 8th term of office. As at 31 December 2013 and as at the day of submitting the Report, the Supervisory Board of LW BOGDANKA S.A. was composed of:

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| 1. Witold Daniłowicz | – Chairman of the Supervisory Board, |
| 2. Stefan Kawalec | – Deputy 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, |
| 8. Michał Stopyra | – Member of the Supervisory Board. |

In 2013 all members of the Supervisory Board fulfilled the independency criteria within the meaning of Article 34.5 of the Company's Articles of Association.

II. Meetings of the Supervisory Board, material issues and the number of resolutions adopted

Meetings of the Supervisory Board in 2013 were convened by the Chairman. Dates of holding meetings were each time agreed by all of the members of the Supervisory Board.

In the reporting period the Supervisory Board held 14 meetings. Resolutions were also adopted by correspondence. During the reporting year, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. adopted in total 58 resolutions.

The meeting of the Supervisory Board held on:

- 10 January 2013 was not attended by Mr Eryk Karski,
- 22 April 2013 was not attended by Mr Stefan Kawalec,
- 28 May 2013 was not attended by Mr Raimondo Eggink,
- 9 September 2013 was not attended by Mr Robert Bednarski.

The Supervisory Board considered their absences as justified and adopted relevant resolutions in this respect. Other meetings were attended by all of the members of the Supervisory Board, which gives the average attendance rate of 95.6%.

During the meetings held in 2013, the Supervisory Board discussed, analysed and issued opinions with regard to the following issues:

- the Company's current situation as regards technical, economic, financial and social issues,
- status of the investment in the Stefanów Field,
- work connected with licences regarding deposits K-3 and K-6-7,
- tenders for stone removal,
- and implementation of recommendations resulting from audits of selected areas of the Company's operations conducted by E&Y and SRK,
- the Company's Technical and Economic Plan 2013, its execution and adjustment,
- Audit Plan 2013,
- principles and procedure for the selection of an entity authorised to audit the Company's financial statements and for the monitoring of non-auditing services by the Audit Committee,
- written report on the activities performed by a member of the Supervisory Board to whom individual performance of certain supervisory functions has been delegated,
- information by the Appointment and Remuneration Committee on the progress of recruitment process,
- changes in the composition of the Management Board, including appointment for the subsequent term of office,
- employment contracts with members of the Management Board,
- implementation of the MBO System – approval of the Rules of the Incentive System (MBO) for the Company's Management Board,
- determination of objectives for the Management Board for 2013 in accordance with the Rules of the Incentive System (MBO),
- status of work regarding formulation of the New Strategy, followed by approval of "LW Bogdanka S.A.'s Development and Operation Strategy for 2013-2020",
- the granting of awards to members of the Management Board,
- consent to the creation of a security interest with respect to the payment of a fee under concluded agreement for the use of geological information,
- permission to members of the Management Board to hold functions in the Supervisory Board of the subsidiaries: EkoTRANS Bogdanka Sp. z o. o. and RG Bogdanka Sp. z o.o.,
- amendments to the Company's Articles of Association and to the Rules of Procedure of the Supervisory Board,
- results of "Audit of employment plan creation process in the context of strategies prevailing in LW BOGDANKA S.A. for employee recruitment process and guarantee of filling in key positions in the Company",

- audit opinions and reports on the Company's financial statements for 2012 prepared by the auditor,
- Company's financial statements for 2012,
- report of the Supervisory Board for 2012,
- distribution of net profit for 2012,
- issuance of opinions with regard to matters to be covered by resolutions of the Annual General Shareholders Meeting,
- financial results of subsidiaries,
- progress of work related to organisation (establishment of a company/ acquisition of shares) of companies for outsourcing works and employee recruitment processes,
- change of name of GKS Bogdanka,
- consent to the creation of a security interest for the claims of CATERPILAR and PKO BP,
- principles regarding potential conflicts of interest affecting members of the Company's Supervisory Board and Management Board, and possible ways to avoid such situations,
- plan of work of the Supervisory Board for 2013,
- review of provisions and impairment losses expected in the financial statements for 2013,
- outcomes of conducted public tenders (comparison of actual prices with cost estimations and PTE),
- project of implementation of changes regarding organisation and management in the Company,
- consolidated text of the Articles of Association,
- revocation of a resolution of the Supervisory Board regarding the Management Board's obligation to present reports to the Supervisory Board,
- the Management Board's motion regarding consent to the issue of dematerialised bearer bonds and the creation of a security interest by the Company with respect to the obligation connected with the above issue,
- the Management Board's information about the status of energy projects carried out by GDF Suez and Łęczyńska Energetyka,
- conclusion of an agreement with Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.,
- consent to the announcement of a tender and conclusion of a contract for the performance of mining works regarding deposit 382,
- conclusion of a donation agreement,
- consent to the sale of non-current assets,
- project of implementation of changes regarding organisation and management in the Company,
- status of work on PTE for 2014,
- budget for 2014,
- tender for a wall-ploughing system.

In 2012, the Supervisory Board adopted a resolution regarding the preparation of expert opinions to cover the purchasing procedures, particularly in the area of mining works, with special emphasis on (potential) conflicts of interest.

In order to implement recommendations resulting from the audits conducted by Ernst & Young Business Advisory Sp. z o.o. i Wspólnicy Sp. k. and SRK Consulting (UK) LTD, the work teams were up in the Company and started work, with co-operation of external advisors and members of the Supervisory Board, in the following three areas:

1. In the area of cost estimation – the Management Board approved new guidance with respect to the procedure for "Preparing, recording and providing investor cost estimations and calculations prepared in the Cost Estimation Department".

2. In the area of competitiveness improvement of awarded contracts and cost reduction – the Management Board commenced the operation of two entities (subsidiary SPVs) providing services to LW BOGDANKA S.A.
3. In the area of elimination of conflicts of interests – changes were made to the Company's internal regulations which consisted in the implementation of clear provisions to the Code of Ethics regarding the issues of conflict of interest and competitive activity. The obligation for the employees to observe the Code of Ethics was also implemented to the Rules of Work.

The Supervisory Board made a positive assessment of the measures taken by the Management Board with respect to the implementation of audit recommendations.

In May 2013, the Supervisory Board implemented the Incentive System (MBO) in the Company and determined individual incentive objectives (in terms of quantity and quality) for members of the Management Board.

On 30 September 2013, the Supervisory Board adopted the Management Option Scheme at LW BOGDANKA S.A. Having regard to the assumptions and financial model in the Company's Strategy for 2013-2020, as well as the current financial results of the Company and the market situation, the Supervisory Board adopted the values of business criteria conditional for the exercise of options under the Company's Management Option Scheme.

Resolutions adopted by the Supervisory Board in 2013:

Minutes No.	Date	Resolution No.	Regarding
9/VIII/2013	10 Jan. 2013	36/VIII/2013	Justifying the absence of the Supervisory Board member.
		37/VIII/2013	Approving the Company's Technical and Economic Plan for 2013.
		38/VIII/2013	Adopting audit plan for 2013.
		39/VIII/2013	Adopting the principles and procedure for the selection of the entity authorised to audit the financial statements and monitoring non-auditing services by the Audit Committee.
		40/VIII/2013	Adopting a report of supervisory activities presented by a delegated member of the Supervisory Board.
		41/VIII/2013	Concluding an employment contract with the President of the Management Board.
10/VIII/2013	25 Jan. 2013	42/VIII/2013	Appointing the President of the Management Board for the 8 th term of office.
		43/VIII/2013	Appointing the Vice-President of the Management Board for the 8 th term of office.
		44/VIII/2013	Appointing the Vice-President of the Management Board, Chief Accountant.
		45/VIII/2013	Appointing the Vice-President of the Management Board for the period until the end of the 7 th term of office and for the 8 th term of office.
		46/VIII/2013	Appointing the Member of the Management Board for the period until the end of the 7 th term of office and for the 8 th term of office.
		47/VIII/2013	Agreeing on templates of an employment contract and a non-compete agreement.
		48/VIII/2013	Defining terms and conditions governing the employment and agreements with the President of the Management Board.
		49/VIII/2013	Defining terms and conditions governing the employment and agreements with the Vice-President of the Management Board.

		50/VIII/2013	Defining terms and conditions governing the employment and agreements with the Vice-President of the Management Board.
		51/VIII/2013	Defining terms and conditions governing the employment and agreements with a member of the Management Board.
11/VIII/2013	14 Feb. 2013	52/VIII/2013	Concluding an agreement amending the employment contract with the Vice-President of the Management Board.
12/VIII/2013	28 Mar. 2013	No resolutions	
13/VIII/2013	22 Apr. 2013	53/VIII/2013	Justifying the absence of the Supervisory Board member.
		54/VIII/2013	Granting consent to the creation of a security interest with respect to payment of remuneration.
		55/VIII/2013	Granting permission to Mr Zbigniew Stopa to his performance as a Supervisory Board member in a subsidiary.
		56/VIII/2013	Granting permission to Mr Krzysztof Szlaga to his performance as a Supervisory Board member in a subsidiary.
		57/VIII/2013	Granting discretionary bonuses to members of the Management Board for the financial year 2012.
14/VIII/2013	9 May 2013	No resolutions	
15/VIII/2013	28 May 2013	58/VIII/2013	Justifying the absence of the Supervisory Board member.
		59/VIII/2013	Approval of an adjustment to the Company's Technical and Economic Plan for 2013.
		60/VIII/2013	Introducing an incentive system for the members of the Management Board.
		61/VIII/2013	Determining objectives for the Management Board for 2013 in accordance with the Rules of the Incentive System (MBO).
		62/VIII/2013	Adopting draft "LW Bogdanka S.A.'s Development and Operation Strategy for 2013-2020"
		63/VIII/2013	Recognition and giving opinion on a resolution of the Company's Annual General Shareholders Meeting.
		64/VIII/2013	Assumptions to the Management Options Scheme for 2013-2018.
		65/VIII/2013	Assessment of the Company's Financial Statements for the financial year 2012.
		66/VIII/2013	Assessment of the Management Boards motion regarding the distribution of net profit for 2012.
		67/VIII/2013	Approving the Report on Operations of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. for the financial year 2012.
		68/VIII/2013	Motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board for the performance of his duties in the financial year 2012.
		69/VIII/2013	Motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board for the performance of his duties in the financial year 2012.
		70/VIII/2013	Motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board for the performance of his duties in the financial year 2012.
		71/VIII/2013	Motion to the Annual General Shareholders Meeting to grant discharge to a member of the Management Board for the performance of his duties in the financial year 2012.
72/VIII/2013	Issuing an opinion on the Management Board's motion regarding the amendments to the Company's Articles of Association.		
By corresp.	3 Jun. 2013	73/VIII/2013	Approving the "LW Bogdanka S.A.'s Development and Operation

			Strategy for 2013-2020".
By corresp.	19 Jun. 2013	74/VIII/2013	Granting consent to the creation of a security interest with respect to the claims of CATERPILLAR Global Mining Europe GmbH Luenen and BRE Bank S.A.
		75/VIII/2013	Granting consent to the creation of a security interest with respect to the claims of a bank for a granted loan.
		76/VIII/2013	Granting consent to the creation of a security interest with respect to the claims of a bank for a granted FX risk security.
16/VIII/2013	5 Jul. 2013	77/VIII/2013	Granting permission to Mr Krzysztof Szlaga to his performance as a Supervisory Board member in a subsidiary.
		78/VIII/2013	Granting consent to the creation of a security interest with respect to the claims of CATERPILLAR Global Mining Europe GmbH Luenen and PKO BP S.A.
		79/VIII/2013	Adopting Rules of Procedure of the Supervisory Board.
17/VIII/2013	12 Aug. 2013	No resolutions	
18/VIII/2013	9 Sep. 2013	80/VIII/2013	Justifying the absence of the Supervisory Board member.
		81/VIII/2013	Approving the uniform text of the Company's Articles of Association.
		82/VIII/2013	Quashing a Resolution of the Supervisory Board No. 15/VIII/2012.
		83/VIII/2013	Granting consent to an issue of dematerialised bearer bonds worth PLN 300,000,000.
		84/VIII/2013	Granting consent to establishing security with regard to the Company's obligation arising under the issue of dematerialised bearer bonds worth PLN 300,000,000.
19/VIII/2013	18 Sep. 2013	85/VIII/2013	Granting permission to the Management Board to concluding Annex 3 and an Agreement with Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.
20/VIII/2013	30 Sep. 2013	86/VIII/2013	Granting permission to invite tenders and conclude a contract for the performance of mining works, seam 382, Nadrybie area.
		87/VIII/2013	Granting permission to conclude a donation agreement with an Independent Public Healthcare Institution in Łęczna.
		88/VIII/2013	The Management Board's motion to grant consent to the Company selling non-current assets in the form of perpetual usufruct right to the property.
		89/VIII/2013	The Management Board's motion to grant consent to the Company selling non-current assets in the form of ownership right and perpetual usufruct right to the property.
		90/VIII/2013	Adopting the Rules of the Management Options Scheme at Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka in 2013-2017.
		91/VIII/2013	Adopting business criteria for the exercise of options under the Management Options Scheme at Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka in 2013-2017.
		92/VIII/2013	Adopting a list of persons eligible for participation in the Management Options Scheme at Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka in 2013-2017, a list of positions covered with the scheme and granting the Options.
21/VIII/2013	13 Nov. 2013	93/VIII/2013	Granting permission to the Management Board to invite tenders and conclude a contract for a supply of a ploughing system.
22/VIII/2013	7 Dec. 2013	No resolutions	

III. Information on the activities of the Supervisory Board Committees

Audit Committee

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2013.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of three members, at least one of whom is independent member, within the meaning of the Chartered Auditors Act. 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 Supervisory Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

In 2013, the Audit Committee operated in the following composition:

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

In 2013, seven meetings of the Audit Committee were held on the following dates:

- 19 March 2013
- 7 May 2013
- 9 May 2013
- 27 August 2013
- 30 September 2013
- 5 November 2013
- 7 December 2013

Mr Robert Bednarski did not participate in the meeting of the Audit Committee on 7 May 2013 and Mr Raimondo Eggink did not participate in the meeting of the Audit Committee on 27 August 2013, therefore the average attendance rate at the meetings of the Audit Committee in 2013 was 90.5%.

In 2013, the Audit Committee worked on the following matters:

1. Analysis of the role of the Audit Committee in the process of preparing an annual audit plan and a strategic audit plan.
2. Review of the financial statements for 2012:

- a) purchase of geological information concerning deposits K6,7 and K 3,
 - b) financial risks included in the financial statements,
 - c) increase in provisions for employee benefits.
3. Recommendation to the Supervisory Board regarding assessment of the financial statements.
 4. Management Board's information on the implementation of recommendations resulting from audits of the selected areas of the Company's operations conducted by E&Y and SRK.
 5. Issue of an appeal against a resolution of the Supervisory Board having been lodged by the former President of the Management Board.
 6. Consolidation with Łęczyńska Energetyka with regard to the income tax.
 7. Review of the financial statements for Q1 2013:
 - a) analysis of set-off of liabilities under deferred tax,
 - b) analysis of intangible assets acquired by Łęczyńska Energetyka,
 - c) analysis of impact of temporary stone removal slow-down on the results,
 - d) analysis of decrease in coal extraction,
 - e) analysis of income from the sale of scrap.
 8. Discussion of the report on execution of audit and control plan in 2012 by the Audit and Internal Control Department.
 9. Analysis of the results from audits conducted in Q4 2012 – audit of the process related to enhancement of occupational qualifications of the Company's employees and audit of the process related to supervision over the Company's facilities.
 10. Discussion of the report of the Corporate Risk Management Committee.
 11. Discussion of the plan of work for the Audit and Internal Control Department for 2013.
 12. Discussion of the plan of work for the Risk Management Department for 2013.
 13. Plan of work for the Audit Committee for 2013.
 14. Review of the financial statements for H1 2013:
 - a) analysis of the impairment loss,
 - b) non-recurring items – employee provisions, mine closure fund,
 - c) implementation of adjusted EBITDA, unit cost of extraction,
 - d) analysis of forward transaction details,
 - e) analysis of hedge accounting principles,
 - f) IAS 19 – presentation changes,
 - g) analysis of non-current assets, cash and cash equivalents.
 15. Management Board's information on changes in controlling.
 16. Report on the execution of the audit and control plan in Q2 2013 by the Audit and Internal Control Department:
 - a) Audit of the delivery quality control process in the Company,
 - b) Audit related to the preparation of employees of third party companies performing mining works underground at LW Bogdanka S.A. in the context of compliance with the law and internal regulations regarding workplace health and safety,
 - c) Audit of the internal regulations existing at the Company from the point of their compliance, cohesion and compatibility at the example of the process for creating annual and strategic plans;
 - d) Audit related to the procedure for mining damage caused by mining operations.
 17. Review of the financial statements for Q3 2013:
 - a) analysis of impairment losses of assets,
 - b) analysis of the process for granting options to members of the Management Board,
 - c) analysis of administrative costs, other operating income.

18. The report of the Audit and Internal Control Department on the execution of the audit and control plan in the third quarter of 2013:
 - a) Audit of the process for lining section recovery, profiling and accessory completion,
 - b) Audit of the internal communication process at the Company,
 - c) Audit of management with the Company Social Fund,
 - d) Controls of correct management with diesel oil, i.e. consumption, accounting, consumption norms, anti-theft security measures),
19. Plan of audits for 2014.
20. Report of the Risk Management Department on risk assessment.
21. Plan of work for the Audit Committee for 2014.

Appointment and Remuneration Committee

In 2013 the Appointment and Remuneration Committee operated in the following composition:

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

In 2013, meetings of the Appointment and Remuneration Committee were held on the following dates:

- 3 January 2013
- 8 January 2013
- 15 January 2013
- 23 January 2013
- 27 August 2013
- 16 September 2013
- 24 October 2013

The average attendance rate at the meetings of the Appointment and Remuneration Committee in 2013 was 100.0 %.

The Appointment and Remuneration Committee participated both in the selection of a company which acted as a personal advisor to the Supervisory Board in the recruitment process as well as in the recruitment of new members of the Company's Management Board. Furthermore, 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.

The Appointment and Remuneration Committee prepared a draft incentive programme for the Management Board. On 28 May 2013, the Supervisory Board adopted a resolution regarding implementation of an incentive system for the Management Board at the Company, approving the Rules of the Incentive System (MBO), and a resolution regarding determination of objectives for the Management Board for 2013.

Strategy Committee

In connection with implementation of the Company's Development and Operation Strategy for 2013-2020, as well as its necessary monitoring and update, during the meeting of the Supervisory Board held on 3 March 2014, the Strategy Committee was appointed in the following composition:

1. Stefan Kawalec – Chairman,
2. Raimondo Eggink,
3. Michał Stopyra.

IV. Composition of the Management Board

Changes in the composition of the Management Board introduced by the Supervisory Board

2013 was the last year when the Management Board of the 7th term of office operated.

As at 1 January 2013, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

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

On 25 January 2013 the Supervisory Board adopted resolutions on the following matters:

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

As at the day of submitting the Report, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

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|-----------------------|---|
| 1. Zbigniew Stopa | – President of the Management Board |
| 2. Waldemar Bernaciak | – Vice-President of the Management Board for Trade and Logistics |
| 3. Roger de Bazelaire | – Vice-President of the Management Board for Economic and Financial Affairs |
| 4. Krzysztof Szlaga | – Vice-President of the Management Board for Procurement and Investments |

Rules governing remuneration and bonus payments to the members of the Management Board

Rules of remuneration of the Management Board members have been specified by the Company's Supervisory Board.

Members of the Management Board are employed on the basis of employment agreements, concluded between the Supervisory Board, represented by the authorised members, and individual persons appointed to the Company's Management Board.

In accordance with the incentive system adopted at the Company, members of the Management Board may receive an extra salary in the maximum amount of up to 30% of their base salary, provided that their individual incentive objectives have been met. In addition, they may receive a bonus for a given financial year equal to 50% of the extra salary (100% in the case of 2013), the payment of which is deferred by one year and depends on their continued employment. Severance pays and compensations, if any, on account of non-competition do not exceed a half-year base salary.

On the basis of a resolution adopted by the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 4 July 2013 on the *issue of series A subscription warrants with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013-2017*, on 30 September 2013 the Supervisory Board adopted the Rules of the Management Options Scheme and granted to the members of the Management Board the total of 551,016 options for the period of 2013-2017. The President of the Management Board received 183,682 options, while each of the remaining Management Board members – 122,448 options. The granted options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares on terms and conditions set out in the Rules.

On 24 April 2014, the Supervisory Board made an assessment of business criteria for the exercise of options and adopted a resolution confirming the fulfilment in 2013 of both business conditions.

V. Information on appointing a chartered auditor

In order to review and audit the Financial Statements of Lubelski Węgiel Bogdanka S.A. and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for 2012, 2013 and 2014 and to prepare written opinions and reports on whether the Financial Statements are correct and present in a reliable and clear manner the financial standing and financial results of the Company and the Group, having conducted a tender, the Supervisory Board, following a recommendation of the Audit Committee and an opinion of the Vice-President of the Management Board Ms Krystyna Borkowska, by virtue of Resolution No. 9/VIII/2012 of 27 June 2012, appointed Deloitte Audyt Sp. z o.o. (currently Deloitte Polska Sp. z o.o. Sp. k.) as the auditor.

According to the Auditor, the audited Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2013 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2013 were prepared, in all material aspects, in accordance with the International Financial Reporting Standards (IFRS) and related interpretations announced by way of Regulations of the European Union, and to the extent not regulated by those standards, as required by the Polish Accounting Act and executive regulations issued pursuant thereto, and on the basis of properly kept accounting books. The financial statements subject to assessment comply with the applicable provisions of law and the Company's Articles of Association affecting the content thereof, and present fairly and clearly all information material for evaluating the Company's profitability and profit (loss) on

its operations in 2013, as well as the Company's financial and economic situation as at 31 December 2013. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the financial year 2013 and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the financial year 2013 contain information on the Company that is true, consistent with the data contained in the financial statements, and they present fully and fairly the Company's situation, including all important events.

Deloitte, as an entity authorised to audit financial statements, as well as chartered auditors performing auditing activities for Lubelski Węgiel Bogdanka S.A. were independent of Lubelski Węgiel Bogdanka S.A. at the time of performance of the above activities, i.e. the circumstances referred to in Article 56.3 of the Chartered Auditors Act did not apply.

VI. Assessment of the Company's situation, as well as the internal control and risk management systems

Lubelski Węgiel BOGDANKA S.A. is Poland's leader among the producers of power coal. In the period from 1 January to 31 December 2013, commercial coal output increased by 7.20% to 8,345,300 tonnes compared to the same period of 2012 (7,784,790 tonnes). In the period from 1 January to 31 December 2013, sales of commercial coal totalled 8,147,150 tonnes, i.e. up by 4.51% (351,640 tonnes) compared to the same period of the previous year. This translated into coal sales of PLN 1,824,944,000, which affected the Company's total revenue, of PLN 1,894,108,000, in 2013 compared to the figure of PLN 1,830,595,000 for the same period of the previous year.

1. Financial results

During the four quarters of 2013, LW BOGDANKA's revenue from the sale of coal amounted to PLN 1,894,108,000, which was an increase of PLN 63,513,000 compared to the revenue figure for the same period of 2012.

The main source of revenue for LW BOGDANKA during the four quarters of 2013 (and of 2012) was the production and sale of power coal. In the period from 1 January to 31 December 2013, this business generated 96.35% of the Company's revenue (97.05% in the same period of the previous year). The increase in coal sales is attributable to an increase in the quantities of the coal sold (up by 4.51%), with a higher average annual unit sale price.

2. Profitability ratios

The Company's profitability ratios stood at higher levels in 2013 compared to 2012.

Gross margin on sales of LW BOGDANKA went up from 21.52% (4 quarters of 2012) to 23.94% (4 quarters of 2013). The change in the value of that ratio was affected by an increase in the dynamics of revenue in relation to the change in incurred costs of products, goods and materials sold (including selling and administrative costs).

In the analysed period EBIT (operating profit) amounted to 22.28%, which means an increase by 1.11 p.p. compared to the same period of the previous year.

EBITDA went up from 37.37% (4 quarters of 2012) to 39.47% (4 quarters of 2013). The change in value of the ratio (except for the growing EBIT) was caused by depreciation going up from PLN 296,442,000 (2012) to PLN 325,500,000 (2013).

3. Coal production and sales

In 2013, the Company's output of commercial coal arrived at 8.35 million tonnes, which was an increase of 7.20% compared to the output level for the previous year (increase by 0.57 million tonnes).

Sales in 2013 amounted to almost 8.15 million tonnes, which was an increase of 4.51% compared to the sales figure for the previous year.

4. Strategy

In 2013-2020, the Company plans to achieve, among other things, the following strategic objectives:

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

The Dividend Policy that is part of the approved Strategy for 2013-2015, provides for profit distributions to shareholders in the Company equal to 60% of the Company's consolidated net profit. The above level of dividend will allow the Company to use a portion of its profit to co-finance its development expenditure on the one hand and to ensure a return of investment in its shares for its shareholders by making dividend payments at an above-average level in the coal mining industry on the other.

VII. Assessment of the internal control system

The Supervisory Board is of the opinion that the internal control system in place at LW Bogdanka S.A. is appropriate for the scale of the Company's business and for its organisational structure. The system is intended to ensure effective organisation, reliable financial reporting and LW Bogdanka S.A.'s compliance with the law and internal rules and regulations.

internal control system is determined in particular by:

- Company's organisational rules;
- Accounting policy;
- Document workflow instruction;
- Internal regulations and procedures;
- Rules of Internal Control.

Moreover, in the process of preparing the Company's financial statements, one of the basic control measures is half-yearly verification of the Company's financial statements by a chartered auditor.

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 Bogdanka S.A. is the parent undertaking.

The Company's internal control system is a multi-step system based on the employees' self-control and functional control at all of the Company's management levels. The most important coordination and supervisory role is played by the Company's principal governing bodies, i.e. the Management Board and the Supervisory Board.

The financial data that is the basis for the preparation of periodic reports is based on the Company's monthly financial reporting. Once the books for each calendar month are closed, the data is analysed by the Management Board in terms of the financial results for the individual operating areas and the achievement of the Company's business objectives.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT finance and accounting system, forming part of the INTEGRA Integrated Management System. It provides conformity of accounting records and legislative regulations. Methods of controlling IT systems ensure comprehensiveness and certainty of undisturbed accounting information, and authorisation of all transactions. The systems used are password protected against access by unauthorised persons and have functional system and data 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.

Monitoring and controlling operations are performed also by a separated organisational unit - the Audit and Internal Control Department which submits the results of its operations to the Company's Management Board and to the Audit Committee, operating within the Company's Supervisory Board.

An annual work schedule of the Audit and Internal Control Department is defined by tasks determined taking into account risks occurring at the Company. The annual work schedule of the Audit and Internal Control Department is approved with a resolution of the Company's Supervisory Board.

As a result of the audit and control tasks carried out in 2013, post-inspection instructions were issued (Instructions by the President of the Management Board). These are being implemented on an ongoing basis, which is contributing to improvement of the way the Company's processes are organised.

The Supervisory Board is of the opinion that the internal control system functions properly and that the tasks carried out by the Audit & Internal Control Department help to improve and continuously enhance the system.

VIII. Assessment of the risk management system

Since 2011, a formalised corporate risk management system developed in cooperation with Deloitte - the ERM (Enterprise Risk Management) has been in place at the Company. In the 2012 reporting year,

the Company and PBSG Sp. z o.o. of Poznań implemented an IT system (RISK Manager and Risk Portal) to support the Company's corporate risk management processes. The basic documents defining the concept, objectives, principles and process of risk management at the Company were verified and revised in this area in order to adapt them to IT solutions. The system covers all of the Company's areas of operation (organisational units) and is designed to identify potential events in terms of threats and opportunities for the Company.

The basic documents of the corporate risk management system in place at the Company include the following:

1. LW Bogdanka S.A. Corporate Risk Management Policy,
2. Model of corporate risk management in LW Bogdanka S.A. - ERM procedures,
3. LW Bogdanka S.A. Risk Register,
4. LW Bogdanka S.A. Risk Map,
5. LW Bogdanka S.A. List of Key/Significant Risks,
6. List of Risk Owners.

The process of managing the Company's corporate risk is divided into the following stages:

1. identifying the business objectives,
2. identifying the risks,
3. risk analysis,
4. risk assessment,
5. formulating and implementing the response to risk and key risk response plans,
6. monitoring the risk management process,
7. communication and application in the decision-making process.

The Company has adopted and is in the process of implementing a corporate risk management system that conforms to the highest standards in this regard, e.g. the ISO 31000 standard.

For the purpose of implementing the corporate risk management system, the Company's Management Board organised a Risk Management Department to be responsible for, above all, shaping, developing and improving the system, as well as for its gradual implementation in all the areas of the Company's operation and for administering the system. A Corporate Risk Management Committee was appointed to coordinate, implement and make the decisions defined as part of the system. The Committee consists of the Company's key personnel representing the Company's main business areas. The Risk Management Department and the Corporate Risk Management Committee provide the Management Board and the Supervisory Board (the Audit Committee) with appropriate statements and reports related to corporate risk management. In 2013, the Company identified and recorded in the Risk Register 312 risks from all areas of corporate activity, managed by 37 Risk Owners. Using the ERM System, two risk assessments were conducted in 2013, during the last one (in November 2013) 7 risks were assessed as strategic, i.e. material for the Company's operations. The Management Board approved programmes and measures developed by Risk Owners to minimise those risks.

According to the Supervisory Board, given the current level of development and implementation of its corporate management risk system, the Company properly manages, using the ERM system, the risks significant from the point of view of its business strategy, correctly identifying and monitoring significant threats to the achievement of the Company's goals, as well as taking actions aimed at minimising risks.

5. Summary

The increase in coal extraction and better financial results are the consequence of the strategy which is being consistently implemented by the Company. Lubelski Węgiel BOGDANKA S.A. stands out in the industry as regards its financial performance, efficiency of hard coal extraction and investment plans, therefore the Supervisory Board evaluates the situation of the Company as very good, in spite of difficult macroeconomic conditions, characterised by very low prices of coal. As one of the most efficient hard coal mines in Poland and domestic leader on the market of power coal producers, LW Bogdanka S.A. is in a good situation for strengthening further its strategic position, and at the same time increasing the profitability and creating value for the shareholders.

IX. Report on results of the assessment of the Company's financial statements and the motion of the Management board regarding distribution of net profit for the financial year 2013.

Pursuant to the provisions of Article 382.3 of the Commercial Companies Code, Article 32.1.1 of the Articles of Association, the Supervisory Board of Lubelski Węgiel Bogdanka S.A. made an assessment of:

1. the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the period from 1 January 2013 to 31 December 2013;
2. Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year from 1 January 2013 to 31 December 2013, including:
 - statement of financial position prepared as of 31 December 2013, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 3,815,467,000**;
 - income statement for the period from 1 January 2013 to 31 December 2013, showing net profit in the amount of **PLN 326,530,000**;
 - statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 showing a positive total comprehensive income in the amount of **PLN 325,216,000**;
 - statement of movements in the equity for the period from 1 January 2013 to 31 December 2013, showing an increase in the equity by **PLN 155,959,000**;
 - statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing an increase in cash by **PLN 91,804,000**;
 - notes, detailing for the adopted accounting policy, as well as additional information.
3. Directors' Reports on Operations of the Lubelski Węgiel Bogdanka Group for the period from 1 January 2013 to 31 December 2013;
4. Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year from 1 January 2013 to 31 December 2013, including:
 - consolidated statement of financial position prepared as of 31 December 2013, showing a balance-sheet total under assets and equity and liabilities in the amount of **PLN 3,844,130,000**;
 - consolidated income statement for the period from 1 January 2013 to 31 December 2013, showing net profit in the amount of **PLN 329,728,000**;
 - consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013 showing a positive total comprehensive income in the amount of **PLN 328,414,000**;
 - consolidated statement of movements in the equity for the period from 1 January 2013 to 31 December 2013, showing an increase in the equity by **PLN 159,157,000**;

- consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing an increase in cash by **PLN 91,453,000**;
- notes, detailing for the adopted accounting policy, as well as additional information.

As a result of the analysis and on the basis of the auditor's opinion and the audit report conducted by chartered auditors, the Supervisory Board states as follows:

The Financial Statements of Lubelski Węgiel Bogdanka S.A. for the financial year 2013 and the Consolidated Financial Statements of the Lubelski Węgiel Bogdanka Group for the financial year 2013 in all material aspects were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The financial statements subject to the assessment comply, in form and content, with the applicable provisions of law and the Company's Articles of Association, and clearly and reliably present all information necessary for evaluating the Company's profitability and operating profit (loss) for the 2013 financial year, as well of the Company's financial and economic situation as at 31 December 2013. Both the Directors' Report on Operations of Lubelski Węgiel Bogdanka S.A. for the 2013 financial year and the Directors' Report on Operations of the Lubelski Węgiel Bogdanka Group for the 2013 financial year contain information on the Company that is true, consistent with the data contained in the financial statements and they fully and reliably present the Company's situation, including all important events.

The Supervisory Board issues its positive opinion on the Management Board's motion, in accordance with which the generated net profit in the amount of **PLN 326,529,845.95** will be allocated as follows:

- the amount of PLN 197,278,822.00 will be allocated for a dividend for shareholders, i.e. PLN 5.80 per share;
- the amount of PLN 129,251,023.95 will be allocated for a write off to the Company's reserve capital.

X. Cooperation of the Supervisory Board and the Trade Unions

Four union organisations operate at the Company.

As at 31 December 2013, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1,174 members
2. Trade Union of Miners in Poland 1,412 members
3. "Kadra" Trade Union 283 members
4. "Przeróbka" Trade Union 270 members

As at 31 December 2013, the number of staff employed at the Company amounted to 4,768 persons. In total, 3,139 employees were members of trade union organisations, which constitutes 65.83% of the total head count.

In 2013, the Supervisory Board held two meetings with the chairmen of the trade unions. The subjects discussed referred primarily the collective bargaining agreement and appointing a Supervisory Board member recommended by the trade unions.

The Supervisory Board positively assesses the cooperation of the Company's Management Board and the trade unions.

XI. Cooperation of the Supervisory Board and the Management Board of the Company

Within the framework of rights and powers held, the Supervisory Board provided the Management Board with active support in implementation of the Company's goals for 2013, analysing and assessing issues submitted to the meetings by the Company's Management Board.

The Supervisory Board states that in Lubelski Węgiel Bogdanka S.A. the principles of the corporate governance are observed in compliance with the "Code of Best Practice for WSE Listed Companies" adopted by the Company for execution, and the Management Board's position with respect to the observance of the above principles is published by the Company in the form of current reports and put on the website www.lw.com.pl in the Investors Relations tab.

The Supervisory Board has a positive opinion of its work with the Company's Management Board in 2013 and of the administrative and organisational aspects of the work of both the Supervisory Board as well as of the Audit Committee and the Appointment and Remuneration Committee.

The Supervisory Board assess positively the operations of the Company's Management Board within the audited period, and moves to the General Shareholders Meeting that discharge be granted to the existing and former members of the Company's Management Board in respect of their duties. The grounds for such opinion are the outcomes recorded by the Company and implementation of investment goals.

In the reporting period, the Supervisory Board exercised continuous supervision over the Company's activities in all areas of its operations. These activities included: the analysis of the financial results, and the analysis of information concerning the Company's operations, provided by the Management Board.

Members of the Supervisory Board of Lubelski Węgiel Bogdanka S.A. exercised due diligence in performance of their duties, using their knowledge and experience within the scope of running and supervising commercial companies. Due to their high competence and engagement of individual Board members and efficient organisation, the Supervisory Board effectively performed its statutory duties.

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. A total gross remuneration paid to the Supervisory Board members for performing their duties in the Company in 2013 amounted to PLN 843,420.00.

The Company shall cover the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision. In 2013, the total costs mentioned above amounted to PLN 40,548.25.

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

In 2013, the Supervisory Board of LW Bogdanka used consulting services of the following entities:

- MMA Spółka z o.o. Sp.k. (Amrop) - PLN 259,050.00
- SRK Consulting - PLN 88,687.53

– Sedlak&Sedlak

- PLN 4,305.00

The total cost of the abovementioned consulting services is: PLN 352,042.53.

The Supervisory Board applies for reviewing and approving this Report and granting discharge to the members of the Supervisory Board in respect of performance of their duties in the financial year 2013.

The Supervisory Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka:

- | | | |
|-----------------------------|--|-------|
| 1. Witold Daniłowicz | Chairman of the Supervisory Board | |
| 2. Stefan Kawalec | Deputy 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 | |
| 8. Michal Stopyra | Member of the Supervisory Board | |

Bogdanka, 24 April 2014