# DIRECTORS' REPORT ON OPERATIONS
# OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

## for the period from 1 January 2012 to 31 December 2012

BOGDANKA, MARCH 2013

**CONTENTS**

# 1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

## 1.1. Structure and changes in the structure of Lubelski Węgiel BOGDANKA Group

As at 31 December 2012, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"; "subsidiary undertaking") as the subsidiary undertaking.

The associated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report, i.e. 21 March 2012, LW BOGDANKA S.A. also held 24.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

## 1.2. Information on the undertakings of the LW BOGDANKA Group

The subsidiary Łęczyńska Energetyka Sp. z o.o. was included in the consolidated financial statements of the LW BOGDANKA Group for 2012 by the full consolidation method. In 2012, there were no companies subject to consolidation with the equity method.

### 1.2.1. The Parent Undertaking of the LW BOGDANKA Group

The LW BOGDANKA Group consists of Lubelski Węgiel BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o., the subsidiary undertaking.

**Lubelski Węgiel BOGDANKA Spółka Akcyjna** (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA" or "LWB").

| | |
|---|---|
| Address: | Bogdanka, 21-013 Puchaczów, Lublin Province |
| Tel.: | (81) 462 51 00, (81) 462 51 01 |
| Fax: | (81) 462 51 91 |
| Website: | www.lw.com.pl |
| e-mail: | bogdanka@lw.com.pl |
| industry identification number (REGON): | 430309210 |
| tax registration number (NIP): | 713-000-57-84 |

**Business activities**

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA S.A. are:

a) agriculture, forestry, hunting and fishery (Section A);

b) mining and production (Section B);

c) industrial processing (Section C);

d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D);

e) water supply; liquid and solid waste management; activities related to reclamation (Section E);

f) construction (Section F);

g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G);

h) transport and warehouse management (Section H);

i) activities related to lodging and catering (Section I);

j) information and communications (Section J);

k) finance and insurance (Section K);

l) real estate activities (Section L);

m) professional, scientific and technical activities (Section M);

n) administration and support activities (Section N);

o) education (Section P).

**Supplementary activities**

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Construction Ceramics Plant. In September 2007, its building materials production business was discontinued as a result of a fire at ZCB EKOKLINKIER (Construction Ceramics Plant). In 2009, intensive works were continued in the Construction Ceramics Plant connected with reconstruction of its manufacturing buildings and process line that had been commenced in 2008. These reconstruction works were completed and the production was restarted in September 2009.

In 2010, ZCB EkoKLINKIER manufactured ceramic façade bricks in full production capacity from January through July. Given a persistent crisis on the market of construction materials, on 1 August the production was limited to about 70% of maximum production capacity, and on 1 September - to 35% of the maximum production capacity.

The test production of the Max type ceramic hollow wall bricks was launched on 15 November 2010. The production of ceramic hollow wall bricks was completed on 31 March 2011.

In order to extend the range of offered products, production of ceramic elevation tiles was launched in March 2011.

As a result of an increased demand on the market of construction materials, the production of façade bricks has been relaunched on 7 April 2011, and established at the level of 70% of the maximum production capacity.

The production of the façade bricks at this level was continued until the end of February 2012. Since 1 March 2012, due to the ongoing stagnation on the market of building materials, the production was reduced again to the level of 35% of the maximum production capacity.

The abovementioned production level was maintained until the end of 2012.

In November 2012, the ZCB Ekoklinkier offer was enriched with tiles and bricks with "rocky" texture, imitating natural, broken stone.

### 1.2.2. Subsidiary undertaking and associated undertaking

Łęczyńska Energetyka sp. z o.o.

| | |
|---|---|
| address: | Bogdanka, 21-013 Puchaczów, Lublin Province |
| Tel. | (81) 443 11 02, (81) 462 55 53 |
| Fax: | (81) 443 11 01 |
| Website: | www.lebog.com.pl |

e-mail: biuro@lebog.com.pl
Industry Identification Number (REGON): 004164490
NIP: 713-020-71-92

Share capital (as at 31 December 2012): PLN 82,677,000.00 divided into 82.677 shares of PLN 1.000.
Shareholding structure:

- 88.697% LW BOGDANKA S.A.
- 11.297% Łęczna Municipality
- 0.006% Puchaczów Municipality.

The business activities of Łęczyńska Energetyka Sp. z o.o. are: producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water. The company also conducts activities involving the construction and refurbishment of heat-generating, water supply and sewage disposal installations.

Łęczyńska Energetyka Sp. z o.o. provides services to LW BOGDANKA S.A. involving supplying heat energy and conducts water/wastewater management.

Łęczyńska Energetyka Sp. z o. o. was established on 28 May 1990.

On 15 June 1990, the Company was registered with the commercial register under entry No. 1823 in section B by the District Court in Lublin, XI Commercial Division. The Company commenced its business activities on 1 July 1990 under the name of KOBO Sp. z o.o., taking over the activities of the mine's Power Engineering Department with respect to heat energy production at the boiler facility in Bogdanka as well as transmission and distribution of the energy to recipients in Bogdanka, Nadrybie and Stefanów and to the town of Łęczna.

As of 1 June 1992 the Company took over the operations of the Water and Wastewater Division.

Between 1994 and 1999 the Company expanded its activities as regards heat production and distribution to include local heat generation plants in Zawadów, Łęczna and Ostrów Lubelski.

As of 2 January 2000 the Company has also provided accommodation and catering services at the Kalnica resort.
In 2011 the Company's Management Board decided to suspend the activities at the resort and designate it for sale by a potential buyer (or buyers).

On 1 February 2001 the Łęczna Municipality made an in-kind contribution to the Company in the form of former ZEC Łęczna's assets in exchange for shares accounting for 23.33% of the Company's increased share capital.

Since 17 April 2001 the Company has operated under the business name of Łęczyńska Energetyka Sp. z o.o. in Bogdanka.

Under resolution No. 19 of 7 December 2004, adopted by the Extraordinary Shareholders Meeting, the Company's share capital was increased by PLN 40,000,000 by creating 40,000 new shares with a par value of PLN 1,000 per share. All the shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. 6026/2004) on 9 December 2004 and paid up in full in cash on 16 December 2004.

By virtue of Resolution No. 1 of 27 July 2006, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. No. 3148/2006) on 30 August 2006 in exchange for an in-kind contribution in the form of the right to perpetual usufruct of land and fixed assets to the total market value of PLN 2,618,477.
LW BOGDANKA's share in the share capital of Łęczyńska Energetyka Sp. z o.o. in Bogdanka accounts for 88.70%.

Associated undertaking:

EKSPERT Sp. z o.o.

address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. (81) 462 20 62
Fax: (81) 462 20 62
Website: -
e-mail: wkekspert@wp.pl
Industry Identification Number (REGON): 432693862
NIP: 505-000-15-99

Share capital (as at 31 December 2012): PLN 50,000.00 divided into 100 shares of PLN 500.

Łęczyńska Energetyka Sp. z o.o. has a 50% share in the share capital and votes at the Shareholders Meeting.

The business activity of EKSPERT Sp. z o.o. consists in manufacturing metal constructions and preparing technical and structural/technological documentation.

On 14 July 2011, the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted Resolution No. 2/2011 on the Company dissolution. On the same day, the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o. adopted also Resolution No. 2/2011 on appointing a liquidator and specifying the manner of representation. Under that resolution Mr Waldemar Kania, the then President of EKSPERT Sp. z o.o., was appointed as the Company's liquidator. On 27 October 2011 two resolutions were adopted by the Extraordinary Shareholders Meeting of EKSPERT Sp. z o.o.: Resolution No. 3, under which Mr Waldemar Kania was dismissed from the function of EKSPERT Sp. z o.o.'s liquidator and Resolution No. 4, under which Mr Marcin Plewka, the Deputy President of the Management Board for Economic and Commercial Affairs of WARBO S.A., was designated as the new liquidator as of 31 October 2011. At present the liquidation procedure is pending.

### 1.3. Organisational and capital affiliations of the Group

Łęczyńska Energetyka holds 50 % of the shares in the share capital of EKSPERT sp. z o.o.

### 1.4. Management system at LW BOGDANKA S.A. and its Group

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision, mainly by way of exercising rights conferred by the shares in Łęczyńska Energetyka, at the Shareholders Meeting of that company. Moreover, as at the day of submitting the Report, one member of the Company's Management Board performs functions in the Supervisory Board of the subsidiary.

Internal organisation of LW BOGDANKA S.A. is determined by Organisational Rules of the Company. In accordance with the Company's Articles of Association, each amendment to the Organisational Rules of the Company as a whole Company's enterprise requires a resolution of the Company's Management Board.

The Parent Undertaking's corporate bodies are:

a) the Management Board;
b) the Supervisory Board;
c) the General Shareholders Meeting.

Powers of the Company's governing bodies result from the provisions of the Commercial Companies Code as well as the Company's Articles of Association. Particular powers of the Company's individual governing bodies are determined by:

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;

b) for the Supervisory Board – Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;

c) for the General Shareholders Meeting – Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

The Company is headed by the Management Board of LW BOGDANKA.

By 27 September 2012 it consisted of five persons:

a) President of the Management Board;

b) Vice-President of the Management Board, Trade and Logistics;

c) Vice-President of the Management Board, Technical Affairs;

d) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;

e) Member of the Management Board, elected by the employees.

Between 27 September 2012 and 23 November 2012, the Management Board consisted of four persons:

a) Vice-President of the Management Board, Technical Affairs – acting President of the Management Board;

b) Vice-President of the Management Board, Trade and Logistics;

c) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;

d) Member of the Management Board, elected by the employees.

Between 23 November 2012 and 4 March 2013, the Management Board consisted of four persons:

a) President of the Management Board;

b) Vice-President of the Management Board, Trade and Logistics;

c) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;

d) Member of the Management Board, elected by the employees.

Operations and authorisations of the Management Board were described in section 13.8.3.1.

**Additionally, in compliance with a resolution of the Company's Supervisory Board of 25 January 2013, the Management Board of the 8$^{th}$ term of office shall operate in the following composition:**

As a result of appointing new Members of the Management Board on 4 and 11 March 2013, as at the date of providing the Report, the Management Board of the 7$^{th}$ term of office operates in the following composition:

a) President of the Management Board;
b) Vice-President of the Management Board, Trade and Logistics;
c) Vice-President of the Management Board, Economic and Financial Affairs;
d) Vice-President of the Management Board, Chief Accountant;
e) Member of the Management Board, Procurement and Investments;
f) Member of the Management Board, elected by the employees.

The Management Board members organise and supervise the organisational units within their own division. The organisational structure of the Company also includes the Chief Engineer - Head of Mining Supervision in Mining Facility (currently Production Director - Head of Mining Supervision in Mining Facility), who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law. More information on the rules governing the appointment and functioning of the Management Board is provided in section 11.8.1 of the Report.

### 1.4.1. Changes in basic management rules of LW BOGDANKA S.A. and its Group

In 2012 the following organisational units were introduced to the organisational structure of the Parent Undertaking:

- Administrative and Support Unit to the Head of Mining Supervision in Mining Facility,

In order to make the rules of management of LW BOGDANKA S.A. more precise, the following steps were taken in 2012:

1. "Regulations for procedures associated with invention projects" were introduced,
2. Amended Enterprise Risk Management System (ERM) was implemented,
3. Amended Work Regulations were adopted,
4. Instruction was implemented with regard to the manner and mode of processing information classified as "reserved" in Lubelski Węgiel Bogdanka S.A. and the scope and conditions for the application of physical security measures in order to protect it,
5. Instruction was implemented with regard to the Regulations of coal sale concerning "The conditions of the sale of power coal at Lubelski Węgiel Bogdanka S.A.'s points of sale, and responsibility principles and employee authorisations in Company's departments in that respect; the above was related to covering, from 2 January 2012, the sale of coal products intended for heating purposes with excise tax",
6. The principle for exercising substantive and formal supervision over the execution of concluded agreements, including charging liquidated damages for their inconclusive performance and controlling payment deadlines, was made clear and precise,
7. Process structure for the Integrated Management System in the area of Health and Safety, Quality, and Environment in Lubelski Węgiel Bogdanka S.A. was determined; persons managing the system were granted the required functions and scopes of responsibility,
8. Updated text of the following instructions was introduced: "Instruction for the system of passes in material movement, instruction for document control of inventory turnover in the Ceramics Inventory and instruction for the system of passes in traffic of individuals aimed at establishing organisational rules and control mode in material movement and traffic of individuals",
9. Amended Instruction for performing stocktaking in Lubelski Węgiel Bogdanka S.A. was introduced,
10. New principles of granting and registering powers of attorney issued by the Company were implemented,
11. Amendments were introduced to the Order of the President of the Management Board No. 27/2007 of 2 October 2007 with regard to determining rules of procedure for awarding contracts outside the scope of application of the Polish Public Procurement Law, as amended.

Additionally, on 1 March 2013, the Company introduced new uniform text of the Organisational Rules of Procedure and the Organisational Scheme. A change was introduced to the names of the positions of the Management Board and to the scope of operations and authorisations. Also the names of positions in the Mining Facility were subject to change.

**Positions existing until 28 February 2013**

- President of the Management Board (D),
- Vice-President of the Management Board, Trade and Logistics (DH),
- Vice-President of the Management Board, Technical Affairs (DT),
- Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant (DF),
- Member of the Management Board, elected by the employees (DZ).

**Positions existing since 1 March 2013**

- President of the Management Board (D),
- Vice-President of the Management Board, Trade and Logistics (DH),
- Member of the Management Board, Procurement and Investments (DI),
- Vice-President of the Management Board, Economic and Financial Affairs (DE),
- Vice-President of the Management Board, Chief Accountant (DF),
- Member of the Management Board, elected by the employees (DZ).

Operations and authorisations of the Management Board were described in section 13.8.3.1.

**Positions which will exist after the Annual General Shareholders Meeting for 2012.**

- President of the Management Board (D),
- Vice-President of the Management Board, Trade and Logistics (DH),
- Member of the Management Board, Procurement and Investments (DI),
- Vice-President of the Management Board, Economic and Financial Affairs (DE).

**Changes in positions in the Mining Facility are as follows:**

- Chief Engineer - Head of Mining Supervision in Mining Facility (TP) – new name Production Director - Head of Mining Supervision in Mining Facility (TP),
- Manager of Mining Works of the Bogdanka Field, Deputy of the HMSMF (PG-1) - new name "Production Deputy Director – Manager of Mining Department of the Bogdanka Field, Deputy of the HMSMF (PG-1),
- Manager of Mining Works of the Nadrybie Field, Deputy of the HMSMF (PG-2) – new name "Production Deputy Director, Manager of Mining Department of the Nadrybie Field, Deputy of the HMSMF (PG-2),
- Manager of Mining Works of the Stefanów Field, Deputy of the HMSMF (PG-3) – new name "Production Deputy Director, Manager of Mining Department of the Stefanów Field, Deputy of the HMSMF (PG-3),
- Chief Ventilation Engineer, Department Manager (PW) – new name Chief Ventilation Engineer, Ventilation Department Manager (PW),
- Chief Engineer for Technical Processing of Coal and Surface, Deputy of the HMSMF for Technical Processing of Coal (PJ) - new name Deputy Director for Technical Processing of Coal and Surface, Deputy of HMSMF for Technical Processing of Coal (PJ).

On 27 April 2012 the Annual General Shareholders Meeting amended the Articles of Association of Lubelski Węgiel BOGDANKA S.A. The amendments concerning the management principles in LW BOGDANKA S.A. applied to the Audit and Internal Control Department and are as follows:

1. The Supervisory Board approves of dismissal of a person in charge of the Company's organisational unit responsible for internal audit or internal control.
2. The Supervisory Board approves of the Rules of Procedure of Internal Audit and Control as well as changes thereto.
3. The Supervisory Board accepts an annual or a multi-year audit plan and the internal audit procedures after a prior opinion of the Audit Committee operating within the Supervisory Board.

### 1.5. Information on branches (establishments) owned by the Group's companies

Lubelski Węgiel BOGDANKA and its subsidiary do not have any branches (establishments).

## 2. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF THE LW BOGDANKA GROUP CONCLUDED IN 2012 AND FOLLOWING THE BALANCE SHEET DATE

The Group's companies have no information about significant agreements concluded in 2012 between the shareholders. All significant agreements concluded by the LW BOGDANKA Group in 2012 and after the balance sheet date are described below.

In 2012 and following the balance-sheet date the subsidiary did not conclude any agreements significant for the business of the LW Bogdanka Group.

### 2.1. Trade agreements

#### 2.1.1. Conclusion of a new long-term significant agreement with Elektrownia Kozienice S.A. for the purposes of Elektrownia Kozienice's power unit currently under development; conclusion of an annex to the existing long-term agreement

In Current Report No. 3/2012 of 23 January 2012, the Company announced that the Management Board of Lubelski Węgiel BOGDANKA S.A., with registered office in Bogdanka (the „Company"), concluded on 23 January 2012 a new Long-Term Agreement No. UW/LW/01/2012, which supplements the existing one, for the supply of power coal (the Agreement) with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1 (the Buyer), for the purposes of Elektrownia Kozienice S.A.'s new power unit currently under development.

The Agreement was concluded for a term from the conclusion thereof until 31 December 2036, with the actual power coal supplies to commence in the first calendar quarter of 2017. The Agreement provides for 20 calendar years of power coal supplies to satisfy the needs of Elektrownia Kozienice S.A.'s new power unit currently under development.

The estimated net value of the Agreement according to supply prices in the current year amounts to PLN 11.248 billion, disregarding the quantitative volume tolerance of +/- 5% as provided for in the Agreement.

The terms of the Agreement are as follows:

1. Power coal prices shall be set for a given calendar year of actual supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland;

2. Annual agreements shall be signed to specify: volume, supply schedule, supply prices, declared quality parameters and other rules governing logistics and supply settlements during the term of the annual agreement;

3. The Parties to the Agreement have the right to terminate it in the event that they fail to successfully negotiate prices for the following calendar year during the term of the Agreement, upon a two-years' notice beginning on 1 January of the following year;

4. Additionally, the Buyer has the right to terminate the Agreement upon a six-months' notice if all the following conditions are not fulfilled jointly by 31 December 2012:

(a) an agreement for the construction of the power unit is signed,

(b) the financing of the unit is closed and the closing is confirmed by a resolution of the Management Board of Elektrownia Kozienice S.A.

The Agreement provides for the following liquidated damages:

1. For the failure to collect or supply the volume of coal resulting from the supply schedule, the liquidated damages shall account for 20% of the value of coal which has not been collected or supplied;

2. For the supply by the Seller of coal with quality parameters below the border parameters specified in the Agreement, the liquidated damages shall account for 1% to 5% of the net value of a given batch of power coal;

3. Each of the Parties to the Agreement may seek supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the loss incurred.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

Furthermore, on 23 January 2012 the Company concluded with Elektrownia Kozienice S.A. with registered office in Świerże Górne, Kozienice, 26-900 Kozienice 1, Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010 for the supply of power coal, referred to in Current Reports published by the Company – No. 5/2010 dated 5 March 2010, No. 44/2010 dated 20 December 2010 and No. 31/2011 dated 27 December 2011, which remains in force and effect until 31 December 2025.

Under Annex 1 the existing manner of setting prices in annual agreements will be changed and the solution adopted in the new additional Agreement will be applied as follows: power coal prices will be set for a given calendar year of supplies by way of negotiation, taking into account the dynamics of price movements with respect to power coal supplies in Poland.

As a consequence of concluding the new additional Agreement No. UW/LW/01/2012 and Annex 1 to the existing Long-Term Agreement No. UW/LW/01/2010, the Parties are now bound by two long-term agreements whose total value for the period 2011-2036 at current prices as at the day the Annex was signed stood at approximately PLN 22.772 billion.

### 2.1.2. Concluding a significant agreement with PGNIG Termika S.A.

In Current Report No. 13/2012 of 23 April 2012, the Company announced that the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company", the "Seller") concluded on 23 April 2012 an Agreement on Sale/Purchase of Power Coal (the "Agreement") with PGNIG Termika S.A., with registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15 (the "Buyer"). The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. (formerly Vattenfall Heat Poland S.A.).

The Agreement is in effect from the date of conclusion thereof until 31 December 2015.

The value of the Agreement at current prices amounts to PLN 1,062,180,000 net without permissible deviations and tolerance specified in the Agreement.

The Agreement provides for the following liquidated damages or compensation:

a) the Party to the Agreement which fails to collect or supply the contracted volume of coal in the settlement periods shall pay the other Party liquidated damages to the amount of 10% of the value of the coal that has not been supplied or collected.

b) The Buyer may demand liquidated damages from the Seller for exceeding the quality parameters by 1-3% of the value, in the monthly settlement.

c) If the coal delivered to the Buyer under this Agreement shall be subject to excise tax, and on the basis of a decision of a relevant institution the Buyer will be obliged to pay it due to reasons attributable to the Seller, on the basis of a decision of a relevant institution the Buyer will encumber the Seller with compensation on the basis of a note, equivalent of the paid excise tax, as a result of imposing excise tax on the coal in question, along with the statutory interest.

d) If the coal delivered to the Buyer under this Agreement shall be subject to excise tax, and the Seller will be obliged to pay it due to reasons attributable to the Buyer or his authorised carrier, on the basis of a decision of a relevant institution the Seller will encumber the Buyer with compensation on the basis of a note, equivalent of the paid excise tax, as a result of imposing excise tax on the coal in question, along with the statutory interest.

e) Each of the Parties has the right to claim supplementary compensation on terms specified in the Polish Civil Code if the liquidated damages shall not cover the value of the inflicted damage.

The Agreement provides for the following terms of its termination:

a) Each of the Parties has the right to terminate the Agreement upon a twelve-months' notice.

b) In the event of repeating failure to meet by the Seller the quality border parameters of the coal supplied, the Buyer has the right to terminate the Agreement with immediate effect, irrespective of the applied liquidated damages.

The Agreement sets out the following conditions precedent:

a) In the event that the supply price for 2014 is not established by 30 April 2013, the Agreement becomes automatically terminated as at 31 December 2013.

b) In the event that the supply price for 2015 is not established by 30 April 2014, the Agreement becomes automatically terminated as at 31 December 2014.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

The criterion for deeming the concluded Agreement to be significant is that it exceeds 10% of the value of the Company shareholders' equity.

Moreover, the Company announced that the total value of all agreements binding the Company with PGNIG Termika S.A., regarding supplies of power coal for the purposes of Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A., amounts to approx. PLN 1,315,910,000 net without regard to permissible deviations and tolerance specified in the agreements, and these are the following agreements:

a) an Agreement on Sale/Purchase of Power Coal, with the value of approx. PLN 1,062,180,000 net, which is the subject of this report, and determines the supplies of power coal for 2013-2015.

b) an Agreement on Sale/Purchase of Power Coal of 11 April 2011, which was subject of Current Report No 7/2011, with the value of approx. PLN 217,560,000 net, and determines the basic supplies of power coal in 2012.

c) an Agreement on Sale/Purchase of Power Coal of 2 April 2012, with the value of approx. PLN 36,230,000 net, which determines the additional supplies of power coal in 2012.

### 2.1.3. Conclusion of an Annex to the Significant Agreement with ENERGA Elektrownie Ostrołęka S.A.

In Current Report No. 29/2012 of 29 May 2012, the Company announced that on 29 May 2012 the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded Annex No. 3 to Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010 (the "Agreement") with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5. The agreement was the subject of Current Reports Nos. 43/2010 of 14 December 2010 and 32/2011 of 28 December 2011.

Annex No. 3 provides for an increase in the number of supplies of power coal to Elektrownia Ostrołęka's power units in 2013 and 2014. Other terms and conditions of the Agreement remain unchanged. In connection with the above and after considering the actual accomplishment in 2011, the value of the Agreement is hereby increased, from 1 January 2011 to 31 December 2015, and it will amount to PLN 980 million net, i.e. approximately 12.5% more than the value indicated in Current Report No. 32/2011.

The Agreement provides for the following liquidated damages:

The Party to the Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay the other Party liquidated damages in the amount of 10% of the value of coal which has not been collected or supplied.

The Agreement provides for the following terms of its termination:

The Parties to the Agreement are entitled to terminate this Agreement upon a twelve-months' notice.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

The criterion for deeming the concluded Agreement to be significant is that it exceeds 10% of the value of the Company shareholders' equity.

### 2.1.4. Conclusion of an Annex to the Significant Agreement with Energa Elektrownie Ostrołęka S.A. (annex concluded with the Agreement assignee – Elektrownia Ostrołęka S.A.)

In Current Report No. 38/2012 of 29 June 2012, the Company announced that the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on 29 June 2012 with Elektrownia Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5, the assignee of the said Agreement and the entity appointed to perform the construction of the power unit, an Annex to the Long-Term Agreement on the sale of power coal No. 1/LW/D/2010 (the "Agreement"), concluded earlier by and between the Company and Energa Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5 (the Agreement assignor), as presented in Current Report No. 40/2010.

The Agreement concerns the supply of power coal for the purposes of a new power unit built in Ostrołęka – Unit C with the power of approx. 1000MW (the "Unit").

The Annex changes a condition of the Agreement termination. In view of the above, the Agreement can be terminated by the Company if by 31 December 2013 (formerly 30 June 2012) the following conditions are not fulfilled:

a) an Agreement on designing, ordering and carrying out the planned Block is concluded;

b) the financing process is completed.

Other terms of the Agreement remain unchanged.

The criterion for deeming the concluded Agreement to be significant is that it exceeds 10% of the value of the Company shareholders' equity.

On 31 October 2012, in Current Report No. 49/2012, the Company announced that on 30 October 2012 it was informed by Elektrownia Ostrołęka S.A., with registered office in Ostrołęka at ul. Elektryczna 5 (the "Power Plant"), about termination of Long–Term Agreement No. 1/LW/D/2010 (the "Agreement") concluded on 19 October 2010, the scope of which covered future power coal supplies to a power unit in Ostrołęka currently under construction, i.e. Unit C with power of approx. 1,000 MW (the "Unit"). Under the Agreement, the supply of coal and operation of Unit C were expected to commence in 2016. The Agreement was described in Current Report No. 40/2010 of 19 October 2010 and Current Report No. 38/2012 of 29 June 2012 (the "Annex to the Agreement").

The Power Plant stated that the reason for terminating the Agreement was a change in market variables as regards project financing, as well as the fact that the Energa Group adopted a Long-Term Investment Plan. As a result, the project concerning the construction of Unit C was suspended, and consequently, the operation of the Unit will not commence in 2016 as scheduled in the Agreement.

Termination of the Agreement does not bring financial consequences which would affect the Company's current position, because the Agreement covers future supplies with regard to which the Company took account of a high risk of the project failure, as the Agreement provided for the obligation to obtain financing for the investment in Unit C.

In its termination notice, the Power Plant refers to Article 11.3 of the Agreement which reads as follows:

- "Each Party may terminate the Agreement upon a 3-year notice, which shall commence on 1 January of the year following the year in which the termination was effected (subject to Article 11.2)."

- At the same time, the Power Plant requested the Company to hold negotiations aimed at terminating the Agreement by mutual agreement before the lapse of the termination period. The Company is now considering the issue, and will inform you of a potential agreement in a current report.

#### 2.1.5. Conclusion of a significant agreement with Elektrownia Połaniec S.A. – the GDF SUEZ ENERGIA POLSKA Group (GDF SUEZ Energia Polska S.A.)

In Current Report No. 41/2012 of 12 July 2012, the Company announced that the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company", the "Seller") concluded on 12 July 2012 a new Agreement on the sale of power coal No. 3/W/2012 (the "Agreement") with Elektrownia Połaniec S.A. - Grupa GDF SUEZ ENERGIA POLSKA ("Elektrownia Połaniec", the "Buyer") with registered office in Połaniec, Zawada 26.

The Agreement is in effect from the date of conclusion thereof until 31 December 2018, and provides for actual supplies of power coal for the purposes of Elektrownia Połaniec in 2013-2018.

The Agreement between the Parties stipulates that the pricing formula is in effect until 31 December 2015.

The value of the Agreement amounts to approx. PLN 2.857 billion net, excluding possible increases or deviations provided for under the Agreement.

The Agreement provides for the following liquidated damages:

a) In the case of failure to supply or collect coal for reasons attributable to one of the Parties in the amount specified for a particular year, taking into account permissible deviations in settlement for a given year, the other Party is entitled to liquidated damages, accounting for 10% of the value of coal which has not been supplied or collected.

b) If the coal delivered to the Buyer under the Agreement is subject to excise tax, and the Seller will be obliged to pay it due to reasons attributable to the Buyer or its authorised carrier, including for failure to fulfil the obligations specified in the Agreement, the Seller will, on the basis of a decision issued by a relevant institution, charge the Buyer with damages on the basis of a note in the amount equivalent to the excise tax paid, as a result of imposing excise tax on the coal in question, together with statutory interest and other costs incurred.

c) Each Party has the right to claim supplementary damages on general terms, if the liquidated damages fail to cover the value of damage incurred by the Party, except for lost profit.

The Agreement sets out the following conditions precedent:

a) The Parties are entitled to terminate the Agreement with immediate effect if Force Majeure lasts longer than 180 days.

b) The Buyer is entitled to terminate the Agreement with immediate effect, if coal parameters fail to comply with border parameters specified in the Agreement for a period of two consecutive months during which coal is supplied.

The Agreement provides for the following conditions subsequent:

a) If: until 31 August 2013 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2016, or until 31 August 2014 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2017, or until 31 August 2015 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2018, the Agreement is terminated with effect at the end of a period, for which the Parties have set the price according to the provisions of the Agreement.

b) Termination of the Agreement in this manner deprives the Parties of mutual claims in connection with termination thereof, in particular, as regards the right to damages on that account, or seeking any other liability, including the right to require supplying/collecting coal in years, for which the Parties failed to set the price.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement significant is that it exceeds 10% of the value of the Company's shareholders' equity.

### 2.1.6. Conclusion of an annex to the significant agreement with EDF Paliwa Sp. z o.o. (formerly PH-U Energokrak Sp. z o.o.) with registered office in Krakow

In Current Report No. 42/2012 of 1 August 2012, the Company announced that the Management Board of LW Bogdanka S.A. with registered office in Bogdanka (the "Company") concluded on 1 August 2012 an annex (the "Annex") to Long-Term Agreement on the Sale of Power Coal (the "Agreement") of 19 July 2011 with Przedsiębiorstwo Handlowo-Usługowe Energokrak Sp. z o.o., ul. Ciepłownicza 1, 31-587 Krakow (the "Customer"), which entirely changes the contents of the said Agreement. The Agreement was described in Current Report No. 21/2011 of 19 July 2011. Under the Annex, it is possible to make coal supplies to Customers which form part of the EDF Group. Moreover, the quantitative volumes of deliveries to the Customer will be increased.

According to the Annex, the Agreement is in effect from 19 July 2011 until 31 December 2015. The Parties have also agreed upon the possibility to renew the Agreement for successive years.

The price of coal for each subsequent year during the term of the Agreement shall be agreed upon by the Parties by way of negotiation. Pursuant to the Annex, the coal delivery prices for 2013 have been set, and, if the Parties fail to negotiate the price in the successive years, a formula for the delivery prices has been determined.

According to the Annex, the net value of the Agreement, excluding any additional options, possible increases, deviations and tolerance, has increased from PLN 393 million net to an estimated value of PLN 621 million net, at current prices.

The Annex to the Agreement also introduces the following provisions (without limitation):

- charging liquidated damages from a Party which, due to reasons attributable to them, fails to deliver or to collect the amount of coal determined by the Parties for a particular calendar year of the Agreement being in force, in the amount representing an equivalent of 20% of the net value of the unperformed coal delivery amount predicted for a particular year,
- possibility of termination of the Agreement by any Party at the end of a particular calendar year in the event that by the deadlines specified in the previous year, the Parties fail to determine the coal delivery prices for all quarters of a particular calendar year.

In compliance with the provisions of the Annex, it is in effect from 1 August 2012.

Other terms and conditions of the Agreement, as a result of the Annex conclusion, do not differ from the market standards applied in such agreements.

The criterion for deeming the Agreement, as a result of the Annex conclusion, significant is that it exceeds 10% of the value of the Company's shareholders' equity.

#### 2.1.7. Conclusion of agreement on the supply of power coal with Grupa Ożarów S.A. Volumes of trade with Grupa Ożarów S.A. - the value of a significant agreement.

On 5 December 2012, the Management Board of LW BOGDANKA S.A. announced that over the last 12 months (as at the date of publication of this Report) the total value of trading and the value of future supplies under agreements between the Company and Grupa Ożarów S.A. (the "Buyer") amounted to approx. PLN 295.04 million net.

The Agreement of the highest value was the Long-Term Agreement on the purchase/sale of power coal (the "Agreement") concluded on 5 December 2012, which provides for coal supplies between 2013 and 2017 for the purposes of cement plants: Ożarów and Rejowiec.

Under the Agreement, the deliveries are to be carried out from 1 January 2013 until 31 December 2017. The total value of the Agreement estimated in accordance with current prices amounts to approx. PLN 218.45 million net without regard to permissible deviations.

The Agreement provides for the following conditions of termination or withdrawal:

a) by the Buyer - in the event that the specified volume of coal supplied by the Seller fails to comply with the border parameters provided for under the Agreement during the calendar year.

b) by the Seller - in the event that the Buyer is in permanent default on payments under the Agreement.

c) by the Parties - in the event that the price of coal supplies for the next calendar year is not set within the time limit specified under the Agreement. In such a case, each Party will be entitled to terminate the Agreement by 31 December of a given year with effect at the end of the following calendar year.

d) by the Parties - in the event that the circumstances of force majeure specified under the Agreement last more than 90 days.

The Agreement provides for the following liquidated damages:

a) The Buyer is entitled to charge the Seller with liquidated damages in the amount of 15% of the value of coal which has not been supplied, if the Buyer withdraws from the Agreement for reasons attributable to the Seller, or if the Seller fails to supply the volume of coal provided for under the Agreement;

b) the Seller is entitled to charge the Buyer with liquidated damages in the amount of 15% of the value of coal which has not been collected, if the Seller withdraws from the Agreement for reasons attributable to the Buyer, or if the Buyer fails to collect the volume of coal provided for under the Agreement.

The Agreement does not provide for the possibility to claim damages in excess of the liquidated damages specified therein.

This was announced by the Company in Current Report No. 53/2012 of 5 September 2012.

#### 2.1.8. Concluding an annex to the significant agreement with Zakłady Azotowe Puławy S.A.

On 28 December 2012 an Annex to the Long-Term Agreement on Sale of Power Coal of 8 January 2009, concluded between the Company and Zakłady Azotowe Puławy S.A. (ZA Puławy) with registered office in Puławy, was signed.

The subject matter of the Agreement is the supply-sale of power coal to ZA Puławy.

The Annex specifies changes in the volumes of coal supplies for the purposes of ZA Puławy for 2012-2017 and the prices for 2013.

As a result of concluding the Annex, the value of the Agreement has increased by PLN 94.74 million net in comparison to the value indicated in Current Report No. 26/2011, and (without regard to possible increases, deviations and tolerance) amounts to a total of PLN 1,058 million net (i.e. 9.83% more than in Report No. 26/2011).

Other terms and conditions of the Agreement remain unchanged and do not differ from the market standards applied in such agreements.

The Agreement of 8 January 2009, which was disclosed in Current Report No. 29/2009, and amended by the Annex of 5 December 2011, which was disclosed in Current Report No. 26/201, was deemed significant because it exceeds 10% of the value of the Company shareholders' equity.

This was announced by the Company in Current Report No. 55/2012 of 28 September 2012.

#### 2.1.9. Execution of a Significant Agreement with ENEA Wytwarzanie S.A.

On 15 January 2013, LW Bogdanka S.A. concluded an Annual Agreement for the Supply of Power Coal in 2013 (the "Annual Agreement") with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1, which is attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010 referred to in Current Report No. 5/2010 of 5 March 2010, No. 44/2010 of 20 December 2010, and No. 31/2011 of 27 December 2011 (the "Long-Term Agreement").

The Annual Agreement is valid from 1 January 2013 to 31 December 2013, and concerns coal supplies for power units of ENEA Wytwarzanie S.A. in Kozienice, compliant with Long-Term Agreement No. UW/LW/01/2010. The value of the Annual Agreement concerning the supplies in 2013 at current prices amounts to PLN 755 million net. As a result of executing the agreement, the value of the entire Long-Term Agreement currently amounts to PLN 11,494 million net, which is 0.26% less than specified in Current Report No. 31/2011 of 27 December 2011.

The Annual Agreement, which constitutes Appendix 4 to Long-Term Agreement No. UW/LW/01/2010, provides for the following liquidated damages: the Party to the Annual Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Other terms of the Annual Agreement do not differ from the market standards applied in agreements of this type.

The criterion for deeming the Agreement material is that it exceeds 10% of the value of the Company shareholders' equity.

This was announced by the Company in Current Report No. 3/2013 of 15 September 2013.

### 2.2. Conclusion of a significant agreement with PGE Obrót S.A. Lublin branch, and volumes of trading with the PGE Polska Grupa Energetyczna Group per value of the significant agreement

In Current Report No. 46/2012 of 14 September 2012, the Company announced that the value of trading and agreements concluded between the Company and the entities of the PGE Polska Grupa Energetyczna Group in the last 12 months (to the publication date of this Report) amounts to approx. PLN 346 million net.

Agreement of the highest value was concluded on 14 September 2012 by and between the Company and PGE Obrót S.A. Lublin branch, ul. Tomasza Zana 32 A, 20-601 Lublin It was the agreement on the sale of electrical energy and ensuring the provision of its distribution (the "Agreement").

The estimated value of the new agreement amounts to PLN 220,600,000 net.

Effective term of the Agreement: from 1 January 2013 to 31 December 2014. The Agreement provides for price negotiation for 2014 in December 2013.

Other terms and conditions of the Agreement do not differ from the market standards applied in such agreements.

The criterion for deeming concluded agreements significant is that they exceed 10% of the value of the Company shareholders' equity.

### 2.3. Agreements related to achieving share issue objectives

In 2012 the Company signed the following annex to an agreement related to the achievement of share issue objectives.

#### 2.3.1. Annex to an agreement with a Consortium of: Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

6 September 2012 was an effective date of an annex to an agreement (the "Agreement") concluded on 29 June 2010 between the Issuer and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. (the "Contractors"), as notified by the Company in Current Report No. 33/2010. Under the Annex, the scope of works commissioned to the Contractor by the Company was changed by the Parties: substitute works (in lieu of discontinued works, i.e. those initially covered by the Agreement), and additional works (not covered by the Agreement) were commissioned.

Due to commissioning the additional works to the Contractor (i.e. placing additional orders with the Contractor) with the net value exceeding 5% of the fee set forth in the Agreement, the time limit for the performance of the Agreement was extended until 31 August 2014. Due to commissioning substitute works to the Contractor, the value of the Agreement has changed and currently amounts to PLN 188,155,513.17 net.

This was announced by the Company in Current Report No. 45/2012 of 6 September 2012.

### 2.4. Transactions with related entities

In 2012 the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

In 2012 the following agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and sewage disposal, maintenance services and other,
- for sale of power coal and electrical energy,
- lease, rental and lending for use agreements,

- for heating of inlet air on shaft 2.2,
- for the construction of heat pipeline.

For more information please refer to the Financial Statements of LW BOGDANKA, note 32.

# 3. FINANCIAL AND PROPERTY POSITION OF THE LW BOGDANKA GROUP

## 3.1. Basis of preparation of the Annual Consolidated Financial Statements

The Group draws up its financial statements on the basis of the International Financial Reporting Standards endorsed by the European Union. Those standards, referred to jointly as the International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The annual consolidated financial statements of the LW Bogdanka Group for the financial year from 1 January 2012 to 31 December 2012 (hereinafter referred to as the "Annual Consolidated Financial Statements") were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Company's transition to the IFRS, i.e. 1 January 2005.

## 3.2. Information on current and forecast economic and financial position of the LW BOGDANKA Group with assessment of financial resources management

The Group's financial and economic position is stable. The financial performance, the value of generated cash flows and cash funds held show that the Group's financial position is good. The LW BOGDANKA Group has no problems with settling contracted liabilities. Financial resources management must be considered good, taking into account the ongoing processes in the Group (implementation of the development strategy).

As at the date of preparing this information, there are no threats as to the Group's ability to settle contracted liabilities in the future. Analyses concerning current and planned financial resources are being conducted on an on-going basis.

Works for optimisation of the mining process (in terms of technology and maximising the output with the current geologic conditions) are systematically carried out. Further, works are pending with a view to making new excavations available, so as to obtain the continuity of extraction in the following years. Next stages of the major investment programme of the Company are pursued, in order to achieve the assumed share issue objectives.

This chapter presents selected ratios characterising the financial position of the Group for the period from 1 January 2012 to 31 December 2012, calculated on the basis of financial data included in the Annual Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group, which were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

Table 1 Selected financial information of the LW BOGDANKA Group [PLN '000]

| Item | Q4 2012 | Q4 2011 | Change [%] 2012/2011 | 4 Qs 2012 | 4 Qs 2011 | Change [%] 2012/2011 |
|---|---|---|---|---|---|---|
| Revenue on sales | 443,561 | 435,588 | 1.83% | 1,835,801 | 1,301,349 | 41.07% |
| Gross profit | 75,958 | 201,773 | -62.35% | 505,190 | 384,653 | 31.34% |
| EBITDA | 90,613 | 229,941 | -60.59% | 658,089 | 450,603 | 46.05% |
| EBIT (Operating profit) | 18,870 | 164,048 | -88.50% | 357,348 | 265,739 | 34.47% |
| Profit before taxation | 17,180 | 162,882 | -89.45% | 358,325 | 271,981 | 31.75% |
| Net profit for the financial year | 12,845 | 133,203 | -90.36% | 289,782 | 221,246 | 30.98% |
| Operating cash flow | 121,481 | 75,813 | 60.24% | 661,729 | 313,802 | 110.87% |
| Investing cash flow | -209,998 | -173,346 | 21.14% | -604,737 | -726,489 | -16.76% |
| Financing cash flow | -3,211 | 100,025 | - | -39,261 | 43,406 | - |

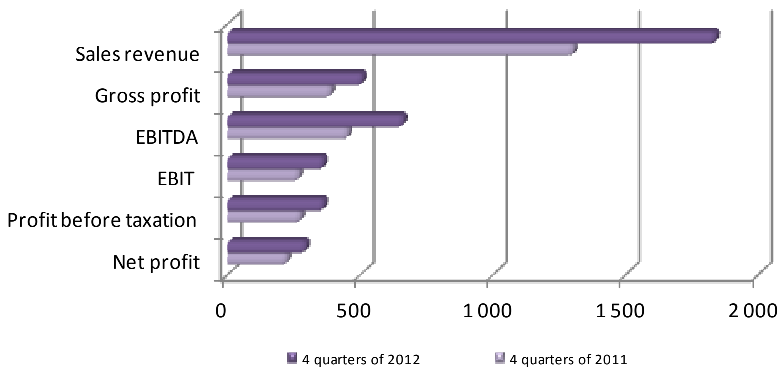
Table 2 Selected financial information of the LW BOGDANKA Group continued [PLN '000]

| Item | 31 Dec. 2012 | Structure of the balance sheet | 31 Dec. 2011 | Structure of the balance sheet | Change [%] (2012/2011) |
|---|---|---|---|---|---|
| Total assets | 3,485,156 | 100.00% | 3,076,228 | 100,00% | 13.29% |
| Fixed assets | 3,063,653 | 87.91% | 2,674,216 | 86,93% | 14.56% |
| Current assets | 421,503 | 12.09% | 402,012 | 13,07% | 4.85% |
| Shareholders' equity | 2,296,374 | 65.89% | 2,142,646 | 69,65% | 7.17% |
| Provisions and liabilities | 1,188,782 | 34.11% | 933,582 | 30,35% | 27.34% |

The financial statements prepared for the period from 1 January 2012 to 31 December 2012 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales was PLN 1,835,801,000, which is an increase of 41.07%, i.e. by PLN 534,452,000 as compared to same period of the previous year. In the fourth quarter of 2012 alone the Group generated revenue of PLN 443,561,000, i.e. higher by 1.83% than in the same period of the previous year.

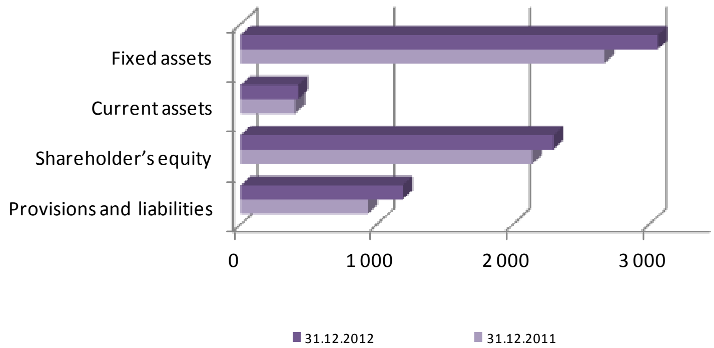
For 12 months of 2012, the Group noted an increase in the operating profit from PLN 265,739,000 to PLN 357,348,000 (+34.47% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) was PLN 658,089,000 for the period from 1 January 2012 to 31 December 2012 as compared to PLN 450,603,000 for the same period of 2011. The increase in the operating profit is a consequence of higher nominal increase in revenue (throughout the entire 2012 the Parent Undertaking carried out extraction in the Stefanów Field) relative to operating costs (costs of products, goods and materials sold together with sales and administrative costs).

***Analysis of the consolidated statement of comprehensive income (PLN million)***




The net profit for four quarters of 2012 was PLN 289,782,000 compared to PLN 221,246,000 for the same period of 2011, which means an increase of 30.98%, i.e. by PLN 68,536,000. The net result for the fourth quarter was PLN 12,845,000 compared to PLN 133,203,000 for the fourth quarter of 2011 (decrease of 90.36%).

***Analysis of the statement of financial position (PLN million)***




The Group's consolidated statement of financial position as at 31 December 2012 shows an increase in the balance-sheet total to PLN 3,485,156,000, i.e. by PLN 408,928,000, compared to the figure as at 31 December 2011. The value of fixed assets went up from PLN 2,674,216,000 (31 December 2011) to PLN 3,063,653,000 (31 December 2012). This increase (+14.56%) is the result of the Parent Undertaking implementing an investment programme involving the development of the Stefanów Field. Additionally, the value of intangible fixed assets (purchase of geologic information) as well as the value of funds gathered in the Mine Closure Fund (as a result of making further write-offs) increased.

In the analysed period, the value of current assets went up from PLN 402,012,000 to PLN 421,503,000 (PLN +19,491,000, i.e. +4.85%) – mostly as a consequence of an increase in cash held by the Group and the reserves gathered by the Parent Undertaking. Further, trade debtors and other receivables wend down.

Increase in value of fixed assets by PLN 389,437,000 affected the structure of key asset items. The share of fixed assets increased from 86.93% (as at 31 December 2011) to 87.91% (as at 31 December 2012). Further, the share of current assets fell from 13.07% (as at 31 December 2011) to 12.09% (as at 31 December 2012).

On the shareholders' equity & liabilities side, shareholders' equity went up to PLN 2,296,374,000 (i.e. by 7.17%). It was attributable to adding the net result for 12 months of 2012 to the shareholders' equity and accounting for the financial result for 2011. In the analysed period, the aggregate provisions and liabilities of the Group went up to PLN 255,200,000, and the change consisted in:

- an increase in long-term liabilities by PLN 146,542,000 (to PLN 773,108,000),
- an increase in short-term liabilities by PLN 108,658,000 (to PLN 415,674,000).

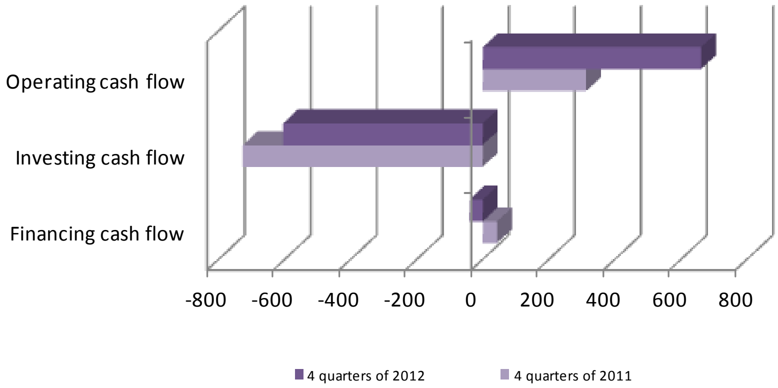
Under long-term liabilities, loans and borrowings went up by PLN 80,000,000 – in connection with the Parent Undertaking drawing two last tranches of short-term working loan in the first half of 2012 (advanced in the aggregate amount of PLN 200,000,000 by PEKAO SA) and reclassifying its portion from a long-term into a short-term loan (PLN 20 million is scheduled for repayment within the next twelve months). Since the employment level at the Parent Undertaking went up, the value of employee liabilities increased.

Under short-term liabilities, trade creditors and other liabilities grew by PLN 74,940,000, and loans and borrowings – by PLN 20,000,000 (a portion of a loan incurred at PEKAO scheduled for repayment within the next twelve months).

The share of shareholders' equity in the total value of shareholders' equity & liabilities as at 31 December 2012 and 31 December 2011 was, respectively, 65.89% and 69.65%.

During four quarters of 2012 the Group financed its operations with operating cash flows and cash funds from the working loan. The value of net operating cash flow grew from PLN 313,802,000 (for four quarters of 2011) to PLN 661,729,000 (for four quarters of 2012).

***Analysis of the cash flow statement (PLN million)***




Between 1 January 2012 and 31 December 2012 net cash flows from investing activities amounted to PLN -604,737,000 while in the same period of 2011 the figure was PLN 726,489,000.

In the period from January to December 2012 the Group generated negative net cash financing flows amounting to PLN -39,261,000 (in the period under analysis two last tranches of a short-term working loan were drawn for the benefit of the Parent Undertaking; a dividend was paid to the shareholders of the Parent Undertaking), whereas a year ago the Group generated positive financing cash flow (resulting from lower dividend and other factors).

The value of cash in hand and on bank accounts as at 31 December 2012 amounted to PLN 120,551,000 and was higher by PLN 17,731,00 than the same data for the previous year.

### 3.2.1. Coal production and sales

During 12 months of 2012 (similarly as in the previous periods) the revenue on sales generated by the LW BOGDANKA Group was determined mostly by the Parent Undertaking's production (extraction) capacity, presented in the table below.

Table 3 Production of the LW BOGDANKA Group for 4 quarters of 2012 and 4 quarters of 2011 ['000 tonnes]

| **4 Qs 2012** | **4 Qs 2011** | **Change 2012/2011 [%]** |
|---|---|---|
| 7,784.79 | 5,838.40 | 33.34% |

In the period from 1 January 2012 to 31 December 2012 the extraction of commercial coal, compared to the same period of 2011, went up by 33.34% and was 7,784,790 tonnes (previous year: 5,838,400 tonnes). The presented increase in extraction of the commercial coal is a consequence of the launch of extraction from the Stefanów Field at the end of 2011 (the period of 2012 is the first full year of extraction of that field). Additionally, the average annual coal yield ratio (the relation of commercial coal to gross coal) was better in 2012 than in 2011.

Table 4 Sale of coal of the LW BOGDANKA Group for 4 quarters of 2012 and 4 quarters of 2011 ['000 tonnes]

| 4 Qs 2012 | 4 Qs 2011 | Change 2012/2011 [%] |
| --- | --- | --- |
| 7,795.51 | 5,948.21 | 31.06% |

Between 1 January 2012 and 31 December 2012 the volume of coal sold was higher by 31.06% (1,847,300 tonnes) than in the same period of the previous year. In 2012 the sale of commercial coal was higher than the net coal production as the Parent Undertaking sold a portion of its stocks.

The diagram below shows the extraction and sale of commercial coal in the individual periods under analysis.

***Analysis of the extraction and sale of coal ('000 tonnes)***

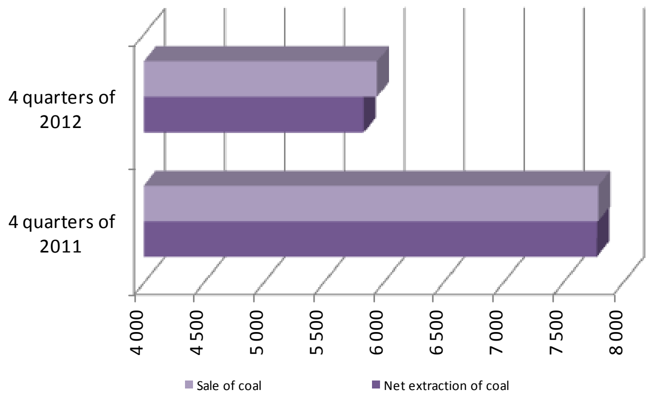



Table 5 Structure of sales of the commercial coal by the LW BOGDANKA Group for 4Qs 2012 and 4Qs 2011

| Sales structure | 4Qs 2012 | 4Qs 2011 | Change [%] (2012/2011) |
| --- | --- | --- | --- |
| Fine coal | 98.20% | 97.64% | 0.57% |
| Nut coal | 0.13% | 0.05% | 160.00% |
| Pea coal | 1.67% | 2.31% | -27.71% |
| **Total** | **100.00%** | **100.00%** | **-** |

In the period from 1 January to 31 December 2012, the Group sold 7,795,510 tonnes of commercial coal, with the fine coal being the dominating sales item – its share in the total sales was 98.20%, and in the same period of 2011 the figure was 97.64%. The share of pea fell from 2.31% (2011) to 1.67% (2012). The smallest share in the quantitative structure of commercial coal sales was held by pea coal – 0.13% in the total tonnage sold in 2012.

### 3.2.2. Stocks

The balance of stock of commercial coal held by the Parent Undertaking as at 31 December 2012 was 18,327.54 tonnes as compared to 27,850.84 tonnes (31 December 2011) – it means that the stock went down by 9,523.30 tonnes (-34.19%). The level of stock at the end of 2012 equals less than one-day coal production of the Parent Undertaking.

Table 6 Stock [tonnes]

| Item | 31 Dec. 2012 | 31 Dec. 2011 | Change 31 Dec. 2012/31 Dec. 2011 – 1 [%] |
|---|---|---|---|
| Stock of coal | 18,327.54 | 27,850.84 | -34.19% |

### 3.2.3. The LW BOGDANKA Group's suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA S.A. all procurement orders above the EU thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Company.

Key suppliers for the LW Bogdanka Group are primarily companies offering mine industry specific services and goods (drilling headings, transport of excavated material, and delivery of casings to galleries and other mining machinery and devices) as well as electricity providers. In the period from 1 January to 31 December 2012 the value of trade with individual suppliers did not exceed 10% of the Group's revenue.

### 3.2.4. Revenue on sales and key customers

During four quarters of 2012, the LW BOGDANKA Group's revenue on sales was at a level of PLN 1,835,801,000 – it was higher by PLN 534,452,000 than revenue obtained in the same period of 2011.

The Lubelski Węgiel BOGDANKA Group has 4 sources of revenue: sales of coal, sales of ceramics, other activities (including the revenue of Łęczyńska Energetyka Sp. z o.o.), and sales of goods and materials.

The main source of revenue on sales for the LW BOGDANKA Group during four quarters of 2012 (as well as 2011) was the production and sale of power coal. Between 1 January 2012 and 31 December 2012 this activity generated 96.77% of the Group's revenue on sales (94.10% in the same period of the previous year). The increase in the revenue on sales of coal is a consequence of higher volumes of coal sold (+31.06%), with only slightly higher average annual unit sales price. In the financial statements published by the Group, for presentation purposes data in the profit and loss account concerning revenue on sales of coal and costs of products, goods and materials sold are adjusted (*in minus*) by the value of sold coal that was obtained during drilling of excavations. Having regard to the foregoing, the values disclosed in the profit and loss account for the period from 1 January 2012 to 31 December 2012 were adjusted by PLN 80,629,950, whereas in the same period of the previous year by PLN 99,122,010.

Over 80% of the sales of coal (in terms of value) realised in the period from 1 January 2012 to 31 December 2012 (similarly as in the same period of the previous year) was effected pursuant to long-term commercial agreements concluded between Lubelski Węgiel BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., PGNiG Termika and Elektrownia Ostrołęka S.A. The Parent Undertaking's customers whose share in the coal sales exceeded in 2012 10% of total revenue were:

- Elektrownia Kozienice S.A. – Grupa ENEA S.A. - approx. 44% of share in revenue

- Elektrownia Połaniec SA / GDF Suez Energia Polska – Grupa GDF Suez Energia Polska - approx. 17% of share in revenue

- PGNIG Termika - approx. 14% of share in revenue.

The change in share of individual customers in the total sales coal is a result of sales diversification.

Revenue on other activities accounted for 2.54% of the total revenue in the period from 1 January 2012 to 31 December 2012, whereas in the previous year this ratio was 3.37% - significant items in that group included revenue connected with coal transport services provided by the Parent Undertaking for one of the customers and revenue on lease of fixed assets. Consolidated revenue of the Group in this item is higher than the revenue of the

Parent Undertaking by PLN 12,268,000. By way of comparison, in the previous year it amounted to PLN 11,518,000, which indicates an increase by 6.14%.

Revenue on sales of goods and materials decreased in the analysed period by 45.51%, i.e. by PLN 11,002,000. In 2012, this amount included primarily revenue on sales of scrap, while in 2011 it included also power coal bought by the Parent Undertaking for resale to one of the customers. Consolidated revenue of the Group in this item is higher than the revenue of the Parent Undertaking by PLN 121,000. By way of comparison, in the previous year it amounted to PLN 161,000, which indicates a decrease by 24.84%.

The share of revenue on sales of ceramics in the total revenue on sales went down from 0.67% to 0.37% of the Group's total revenue.

Table 7 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group [PLN '000]

| Item | 4 Qs 2012 | 4 Qs 2011 | Change [%] 2012/2011 |
|---|---|---|---|
| Sales of coal | 1,769,341 | 1,224,690 | 44.47% |
| Sales of ceramics | 6,749 | 8,678 | -22.23% |
| Other activities | 46,539 | 43,807 | 6.24% |
| Sales of goods and materials | 13,172 | 24,174 | -45.51% |
| **Total revenue on sales** | **1,835,801** | **1,301,349** | **41.07%** |

Table 8 Structure by type of revenue on sales of the LW BOGDANKA Group [PLN '000]

| Item | 4 Qs 2012 | Share [%] | 4 Qs 2011 | Share [%] |
|---|---|---|---|---|
| Sales of coal | 1,769,341 | 96.37% | 1,224,690 | 94.10% |
| Sales of ceramics | 6,749 | 0.37% | 8,678 | 0.67% |
| Other activities | 46,539 | 2.54% | 43,807 | 3.37% |
| Sales of goods and materials | 13,172 | 0.72% | 24,174 | 1.86% |
| **Total revenue on sales** | **1,835,801** | **100.00%** | **1,301,349** | **100.00%** |

The LW BOGDANKA Group operates primarily in Poland. In 2012 as well as in 2011 export sales were marginal for generated revenue and entailed exclusively sales of ceramics. The share of export in the total revenue on sales did not exceed 0.05%.

Table 9 Geographical structure of revenue on sales of the LW BOGDANKA Group [PLN '000]

| Item | 4 Qs 2012 | Share [%] | 4 Qs 2011 | Share [%] |
|---|---|---|---|---|
| Domestic sales | 1,835,006 | 99.96% | 1,300,870 | 99.96% |
| Export sales | 795 | 0.04% | 479 | 0.04% |
| **Total revenue on sales** | **1,835,801** | **100.00%** | **1,301,349** | **100.00%** |

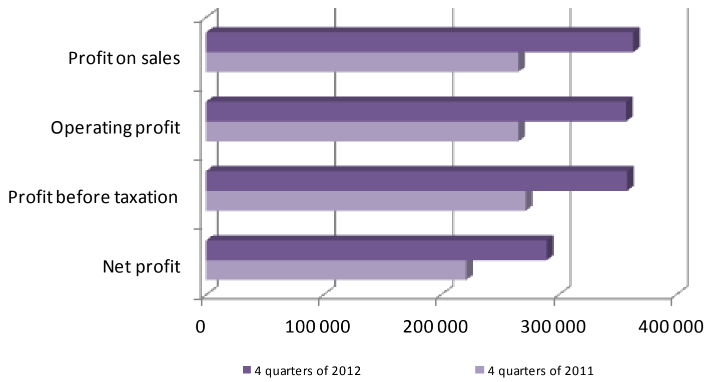
### 3.2.5. Statement of comprehensive income of the LW BOGDANKA Group

In the period from 1 January 2012 to 31 December 2012, the revenue on sales of the LW BOGDANKA Group went up compared to the same period of the previous year by 41.07% (to a level of PLN 1,835,801,000). In the same period, costs of the Group's (costs of products, goods and materials sold together with selling and administrative costs) increased by 42.15% to a level of PLN 1,472,270,000. Such changes in revenue and costs resulted in the profit on sales being higher by 36.86%, i.e. 363,531,000 for 12 months of 2012 as compared to PLN 265,632,000 for the same period of 2011.

Table 10 Selected items of the statement of comprehensive income of the LW BOGDANKA Group [PLN '000]

| Item | 4 Qs 2012 | 4 Qs 2011 | Change (2012/2011) [%] |
|---|---|---|---|
| Revenue on sales | 1,835,801 | 1,301,349 | 41.07% |
| Cost of products, goods and materials sold, cost of sales, administrative expenses | 1,472,270 | 1,035,717 | 42.15% |
| **Profit on sales** | **363,531** | **265,632** | **36.86%** |
| Other income | 4,065 | 5,597 | -27.37% |
| Other expenses | 1,822 | 2,434 | -25.14% |
| Other net profit/loss | -8,426 | -3,056 | 175.72% |
| **Operating profit** | **357,348** | **265,739** | **34.47%** |
| Financial income | 11,833 | 12,535 | -5.60% |
| Financial expenses | 10,856 | 6,293 | 72.51% |
| Share in (losses)/profits of associated undertakings | | | - |
| **Profit before taxation** | **358,325** | **271,981** | **31.75%** |
| Income tax | 68,543 | 50,735 | 35.10% |
| **Net profit for the financial year** | **289,782** | **221,246** | **30.98%** |
| - attributable to shareholders of the Parent Undertaking | 289,368 | 220,921 | 30.98% |

***Analysis of consolidated statement on comprehensive income at individual levels of the Group's operations in PLN '000***




Other income

For 12 months of 2012, other operating income amounted to PLN 4,065,000 compared to PLN 5,597,000 for the same period of the previous year – this means a decrease of 27.37%. The amount of PLN 4,065,000 includes recorded revenue arising from non-recurring events (primarily compensations received, calculated liquidated damages and released special purpose provisions).

Other expenses and other net profits/losses

For 12 months of 2012, other expenses amounted to PLN 1,822,000 compared to PLN 2,434,000 incurred in the same period in 2011 – this means a decrease of 25.14%. In 2012 expenses on account of compensation, enforcement fees and penalties were lower.

In the analysed period of 2012, other net profits/losses amounted to PLN -8,426,000 compared to PLN -3,056,000 for the same period in 2011 – in 2012 higher special purpose provisions were created (including for mining damage).

After having taken into account profit on sales, other income, expenses and other net profits/losses, we arrive at operating profit (EBIT) for four quarters of 2012 at a level of PLN 357,348,000, which is higher than that for the previous year by 34.47%, i.e. by PLN 91,609,000.

Financial income

Financial income for 12 months of 2012 amounted to PLN 11,833,000 compared to PLN 12,535,000 a year ago (decrease of 5.60%). The change in financial income is a consequence of lower annual-average level of cash in the Group.

Financial expenses

In the analysed period of 2012, financial expenses amounted to PLN 10,856,000 compared to PLN 6,293,000 a year ago (increase by PLN 4,563,000, i.e. of 72.51%). In 2012 the value of interest-bearing debt of the Parent Undertaking increased – in the first half of 2012 two last tranches were used (PLN 100 million in total) from the advanced short-term working loan.

The result before taxation for 12 months of 2012 is higher than a year ago by 31.75% – profit before taxation for four quarters of 2012 amounted to PLN 358,325,000 compared to PLN 271,981,00 for four quarters of 2011.

Mandatory decrease of the result in the form of corporate income tax resulted in generating net profit for the financial year from 1 January 2012 to 31 December 2012 in the amount of PLN 289,782,000 as compared to PLN 221,246,00 for the same period in 2011 – year-to-year net profit of the Group went up by 30.98%.

### 3.2.6. Profitability

Table 11 Profitability ratios of the LW BOGDANKA Group

| Item | 4 Qs 2012 | 4 Qs 2011 | Change [p.p.] 2012-2011 | Change (2012/2011) [%] |
|---|---|---|---|---|
| Gross margin on sales | 27.52% | 29.56% | -2.04 | -6.90% |
| EBITDA | 35.85% | 34.63% | 1.22 | 3.52% |
| EBIT | 19.47% | 20.42% | -0.95 | -4.65% |
| Gross margin | 19.52% | 20.90% | -1.38 | -6.60% |
| Net margin | 15.79% | 17.00% | -1.21 | -7.12% |
| Return on Assets (ROA) | 8.83% | 7.49% | 1.34 | 17.89% |
| Return on Equity (ROE) | 13.06% | 10.76% | 2.30 | 21.38% |

Gross margin on sales of the LW BOGDANKA Group went down from 29.56% (4 quarters 2011) to 27.52% (4 quarters 2012). The change in 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.

In the analysed period EBIT (operating profit) amounted to 19.47%, which means a decrease by 0.95 p.p. compared to the same period of the previous year. The change in value of that ratio was caused by, in addition to factors described in the gross margin section, also higher selling and administrative costs.

EBITDA went up from 34.63% (4 quarters 2011) to 35.85% (4 quarters 2012). The change in value of the ratio was caused by depreciation going up from PLN 184,864,000 (2011) to PLN 300,741,000 (2012).

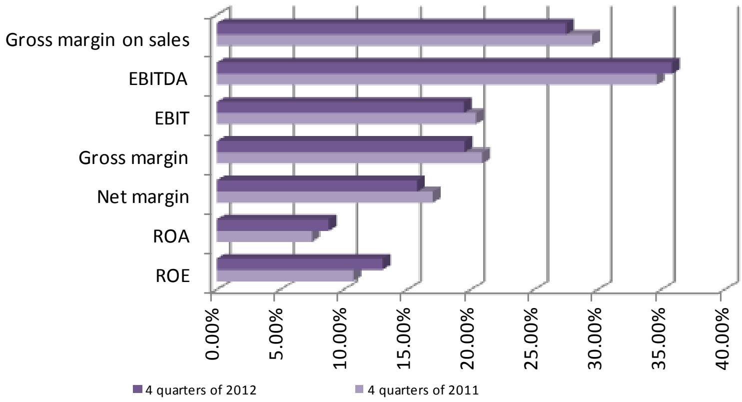
Gross margin for four quarters of 2012 amounted to 19.52% and was lower by 1.38 p.p. than margin for four quarters of 2011.

Net margin on operations conducted by the Lubelski Węgiel BOGDANKA Group for four quarters of 2012 amounted to 15.79% as compared to 17.00% for four quarters of 2011.

The increase in return on assets (from 7.49% to 8.83%) resulted from higher net profit relative to the dynamics of the average level of the Group's assets.

Similarly as in the case of return on assets, the increase in return on equity resulted from higher net profit (by 30.98%) with equity going up (only by 7.17%) at the same time.

***Profitability analysis***




### 3.3. Assessment of factors and untypical events affecting the Group's operations and the consolidated operating profit for the financial year

In 2012 no untypical factors and events occurred that may have influenced the Group's operations. Events that affected operations and financial results of the Group in the financial year 2012 or which may have influence thereon in the following years have been described in other sections of the Report.

### 3.4. Differences between financial results of the Group disclosed in the annual report and the published forecasts of the results for a given year

LW BOGDANKA S.A. did not publish forecasts of the separate or consolidated financial results of the Company for 2012.

### 3.5. Partial release of the provisions for real property tax on the value of underground workings

By virtue of Current Report No. 4/2012 of 2 February 2012, the Company announced that on 2 February 2012, in connection with a judgement of the Constitutional Tribunal with regard to imposing real property tax on the value of underground workings announced on 13 September 2011, it adopted a resolution on partial release of the provisions for real property tax on the value of underground workings (the "Property Tax") and established the following balance of provisions and amounts due from municipalities on account of property tax as at 31 December 2012.

The provision for the real property tax is described in detail in note 18 of the Financial Statements of the LW BOGDANKA Group.

### 3.6. Debt and financing structure of the LW BOGDANKA Group

Table 12 Debt ratios of the LW BOGDANKA Group

| Item | 31 Dec. 2012 | 31 Dec. 2011 | Change (2012/2011) [%] |
|---|---|---|---|
| Overall debt ratio | 34.11% | 30.35% | 12.39% |
| Debt to equity ratio | 51.77% | 43.57% | 18.82% |
| Fixed capital to fixed assets ratio | 97.26% | 100.68% | -3.40% |
| Short-term debt ratio | 11.93% | 9.98% | 19.54% |
| Long-term debt ratio | 22.18% | 20.37% | 8.89% |

As at 31 December 2012, the share of liabilities in financing the operations of the LW BOGDANKA Group, measured with the overall debt ratio, was 34.11% and respectively 30.35% as at 31 December 2011. In the period covered by the consolidated financial statements for four quarters of 2012 the debts of the LW BOGDANKA Group did not pose any threat for its operations and ability to settle its liabilities on a timely basis.

In the analysed period the debt to equity ratio went up from 43.57% (as at 31 December 2011) to 51.77% (as at 31 December 2012) which is a consequence of shareholders' equity being higher by PLN 153,728,000, with the Group's total liabilities going up by PLN 255,200,000 at the same time.

The fixed capital to fixed assets ratio is close to 100%. This is caused first of all by an increased value of fixed assets (by PLN 389,437,000 in connection with implementation of the investment programme) and by an increased shareholders' equity by only PLN 153,728,000 (as a result of the settlement of net profit for 2011). The ratio should be expected to return to the level of ≥100% after completion of the entire investment programme, when the Group will start to use commercially all of the assets manufactured hitherto.

Table 1 Liquidity ratios of the LW BOGDANKA Group (days)

| Item | 31 Dec. 2012 | 31 Dec. 2011 | Change (2012/2011) [%] |
|---|---|---|---|
| Current liquidity ratio | 1.14 | 1.49 | -23.49% |
| Quick liquidity ratio | 0.99 | 1.33 | -25.56% |

In the period covered by the Annual Consolidated Financial Statements the liquidity ratios of the LW BOGDANKA Group remained at a safe level – the Group does not disclose any problems with settlement of its liabilities. The level of liquidity ratios (both as at 31 December 2012 and 31 December 2011) is a reflection of the balance of cash funds originated from loans taken out by the Parent Undertaking and the balance of funds from conducted operating activities. The amount of cash held by the Group is higher than the amount of cash held by the Parent Undertaking by PLN 34,457,000.

Table 2 Turnover ratios of the LW BOGDANKA Group (days)

| Item | 31 Dec. 2012 | 31 Dec. 2011 | Change (2012/2011) [%] |
|---|---|---|---|
| Stock turnover | 13.6 | 20.8 | -34.62% |
| Trade debtors collection rate* | 49.3 | 53.6 | -8.02% |
| Trade creditors payment rate** | 74.7 | 94.5 | -20.95% |
| Operating cycle (1+2) | 62.9 | 74.4 | -15.46% |
| Cash conversion cycle (4-3) | -11.8 | -20.1 | -41.29% |

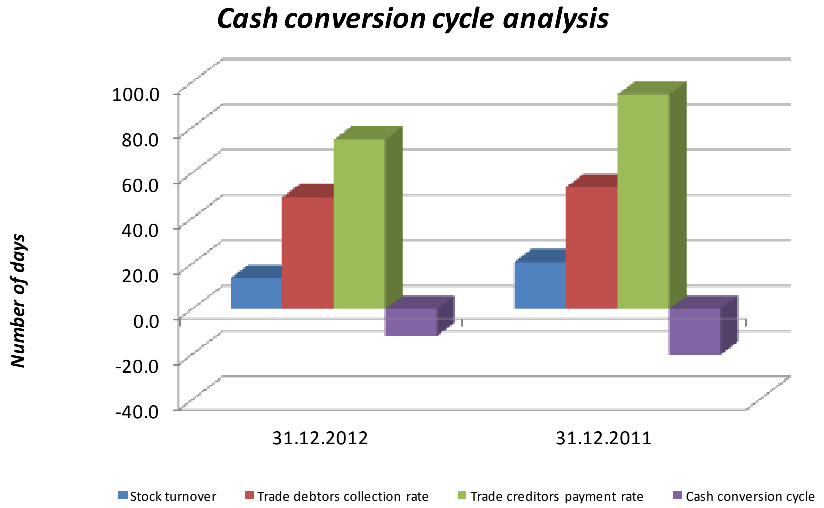
*Trade and other debtors
** Trade and other creditors

Compared to the rate as at 31 December 2011, the stock turnover rate for 2012 fell from 20.8 days to 13.6 days – with the average level of inventories going down (compared to the balance as at 31 December 2011) the cost of products, goods and materials sold went up.

The trade debtors collection rate (calculated on the basis of the balance sheet item "Trade and other debtors") was 49.3 days (as at 31 December 2012) and 53.6 days (as at 31 December 2011). The decrease in the rate was caused by a lower level of average trade debtors relative to the dynamics of the revenue on sales.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) equalled in the analysed period 62.9 days compared to 74.4 days as at 31 December 2011 – it means that the current assets are converted into cash on the average by 11 days faster.

The trade creditors payment rate (calculated on the basis of the balance sheet item "Trade and other creditors") in the period covered by financial information got shorter from 94.5 days (as at 31 December 2011) to 74.7 days (as at 31 December 2012).




The trends described above resulted in the cash conversion cycle of -11.8 days as at 31 December 2012 compared to -20.1 days as at 31 December 2011. The negative value of the cash conversion cycle means that the Lubelski Węgiel BOGDANKA Group makes use of non-interest bearing debt.

### 3.7. Agreements concerning the Group's loans and borrowings

In 2012 the Company had two signed loan agreements.

Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: On 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000, of which PLN 9,000,000 was repaid in 2011.

As at 31 December 2012 liabilities under the loan in PKO BP S.A. amounted to PLN 241,000,000.

Interest on the loan was: 3M WIBOR + 0.60 pp, the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, constituting 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt. However, the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

Collateral for the granted loan is:

- a blank promissory note along with a promissory note declaration,
- clause on deduction from an account in PKO BP S.A.,
- transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

Annex No. 3 of 29 December 2009 introduces the Company's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or Capital Group deteriorates, resulting in a necessity of making write-downs (according to the IAS) and specific provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing for not creating the above mentioned write-downs and provisions.

Repayment of the loan changed with Annex No. 3 of 29 December 2009 was to be carried out on the following dates and in the following amounts:

1. 2011 – PLN 50,000,000
2. 2012 – PLN 65,000,000
3. 2013 – PLN 70,000,000
4. 2014 – PLN 65,000,000

And according to Annex No. 4 of 5 December 2011 was changed to stipulate the following dates and amounts:

1) 2011 – PLN 9,000,000,
2) 2014 – PLN 241,000,000.

As at 31 December 2012, the indebtedness of the Company on account of the loan taken in PKO BP S.A. amounted to PLN 241,000,000.

Agreement for "a working loan in PLN" concluded with **Bank Polska Kasa Opieki S.A.** on 23 December 2011; lending term until 31 December 2014.

The purpose of the loan is to finance current operations.

Loan tranches were granted for the following dates and in the following amounts:

1) PLN 50,000,000 on 27 December 2011,
2) PLN 50,000,000 on 30 December 2011,
3) PLN 50,000,000 on 30 March 2012,
4) PLN 50,000,000 on 29 June 2012.

Interest on the loan: WIBOR 3M increased by Bank's margin of 0.8 p.p. on an annual basis on the loan drawn. Front-end-fee in the amount of 0.1 p.p. on the loan tranches drawn. Interest rate on past due loan is variable, regarding the amount of statutory interest on the outstanding amount, and equals 13% p.a. on the date of agreement execution.

Collateral for the granted loan is:

- confirmed assignment of receivables in the minimum amount of PLN 250,000,000 during a year,
- a blank promissory note with a promissory note declaration,
- a power of attorney to bank accounts kept with the Bank,

– a statement on submission to execution.

The loan will be repaid as follows:

3) 2013 – PLN 20,000,000,

4) 2014 – PLN 180,000,000.

The indebtedness with Bank Polska Kasa Opieki Spółka Akcyjna as at 31 December 2012 amounted to PLN 200,000,000.

In 2012 Łęczyńska Energetyka Sp. z o. o. did not grant or take out any loans, nor did it terminate agreements concerning borrowings.

### 3.8. Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s related entities

In 2012 Lubelski Węgiel BOGDANKA S.A. did not provide any sureties or guarantees.

Guaranties received:

As of 30 August 2011, Lubelski Węgiel BOGDANKA S.A. received from BRE Bank S.A. a guarantee of payment in the amount of PLN 40,745,250. Its purpose was to guarantee timely payment to BUCYRUS EUROPE GmbH, Industriestrasse 1, 44534 Lunen, Germany for the supply of a factory-new ploughing complex intended for underground mining plants extracting hard coal, in accordance with an agreement concluded between LW BOGDANKA S.A. and Bucyrus Europe GmbH on 31 May 2011. The guarantee was valid until 30 November 2012.

Collateral for the granted guarantee is:

– a blank promissory note with a promissory note declaration,

– assignment onto the Bank of the receivables from ENERGA Elektrownie Ostrołęka S.A. under the Long-Term Agreement No. 1456/W/2010 on the supply of power coal of 14 December 2010, as amended (if applicable), pursuant to an agreement for the assignment of contractual receivables no. 04/014/11 of 30 August 2011.

– a statement on voluntary submission to execution.

Guarantee costs:

– Front-end-fee in the amount of PLN 75,000.00.

As of 20 September 2012, Lubelski Węgiel BOGDANKA S.A. received from **PKO BP SA bank guarantee of payment** no. 23 1020 3147 0000 8293 0020 9643 up to the amount of PLN 19,000,000 for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warszawa, to secure liabilities associated with the payment of remuneration for paid use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits under agreement no. 808/IG/2012 dated 24 August 2012. The guarantee is valid until 30 September 2021.

The liability under the guarantee will be reduced on a pro rata basis in the following cases:

1. the Bank makes payments to the Ministry of Environment, in which case the guarantee shall be reduced by the amount of such payment,
2. LW BOGDANKA SA makes payments to the Ministry of Environment in accordance with the conditions of the agreement, the receipt of which shall be confirmed by the Ministry of Environment in a statement.

Collateral for the guarantee is:

- transfer of cash in the amount of PLN 19,000,000 to the Bank's account,
- clause regarding sett-off of receivables from the bank accounts of LW BOGDANKA S.A. at PKO BP SA,
- a statement on submission to execution.

Guarantee costs:

- fee for granting the guarantee by PKO BP (0.1% on the date of signing of the agreement) on the amount of liabilities of PKO BP SA for each 3-month period of validity of the guarantee, but not less than PLN 200; the Bank reserves the right to increase fee rates in accordance with its assessment of the degree of increased risk,
- fee for increasing the amount of the guarantee of 0.1% of the amount of such increase, but not less than PLN 200.

The Company adopted resolution no. 1465/VII/2012 on granting the Creditor's company a mortgage of the real property owned by Mr Piotr Andrzejkiewicz as collateral for the creditor's claims against Wiol-Mex Wioletta Andrzejkiewicz-Kopciuch (Debtor).

In 2012 Łęczyńska Energetyka Sp. z o.o. did not grant or obtain any sureties or guarantees.

### 3.9. Information on financial instruments

During four quarters 2012 the Group did not use any financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

The Group is of the opinion that the risk associated with trade debtors is limited as the Company transacts only with customers of confirmed credit ratings (major customers are entities of stable financial situation). Further, the Group continuously monitors its customers' arrears in settling their payments.

The Group is of the opinion that the risk associated with trade creditors is limited as the Parent Undertaking continuously analyses inflows and outflows, and knows in advance what amounts will be due. Further, the cooperation with banks is very good, which allows the Group to obtain financing in the event of payment gridlocks.

### 3.10. Overview of significant off-balance sheet items of the Group in subjective, objective and value terms

In 2012 there were no off-balance sheet items.

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

The Lubelski Węgiel BOGDANKA Group draws up consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document in books, the accounting and fiscal 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.

## 4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE LW BOGDANKA GROUP'S OPERATIONS

Factors significant for the development of Łęczyńska Energetyka include:

a) Upgrade of the boiler house into a combined heat and power station, thus entering an attractive electrical power market in view of the forecast surge in electricity prices and securing all requirements regarding environmental protection,
b) opportunity to obtain subsidies for pro-ecological investments,
c) expanding the range of services offered in the town of Łęczna (e.g. maintenance services for internal central heating, hot water and water and sewage installations, providing emergency utility assistance),
d) opportunity to produce aggregates for the construction industry using the combustion by-products from the fluidized bed boiler designed for the heat and power station,
e) the interest shown by local producers in the cultivation of energy plants offers an opportunity to secure a steady supply of biomass for the future heat and power station, consequently resulting in the production of attractive "green energy",
f) persistently rising prices of liquid and gas fuel make the heat energy offered more attractive.

### 4.1. The Group's development strategy and policy on development direction

#### 4.1.1. LW BOGDANKA S.A.'s development strategy

A strategic goal for the development of LW BOGDANKA S.A. is to build and enhance the Company's value for the shareholders by means of:

a) gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;
b) maintaining a stable position as the main supplier of coal in eastern Poland, in particular for the commercial power industry;
c) strengthening its competitive position by cutting unit costs of extraction and production.

The main strategic development objectives defined by the Company are:

a) doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland;
b) improving the efficiency of hard coal extraction and production;

c) ensuring that LW BOGDANKA is self-sufficient regarding the supply of electricity by developing its activities as regards the production of electricity;

d) environmental protection measures.

Strategic development objectives defined by the Company along with planned activities are presented below:

**1) Doubling the level of extraction of hard coal:**

a) increasing production capacity of the Company by enlarging the Stefanów Field

The major component of the LW BOGDANKA's development strategy is the enlargement of the Stefanów Field, which will make it possible to double the production capacity from 5.8 million tonnes in 2010 to the target level of approx. 11.5 million tonnes per annum in 2014.

The main investments related to the enlargement of the Stefanów Field include:

- extension of the mining area,
- Extension of the Mechanical Coal Processing Plant,

b) Increase in employment and human resources management

c) Marketing operations

**2) Improving the efficiency of hard coal extraction:**

a) Implementing a plough technique of coal getting in mining longwalls (gaining access to new industrial reserves)

b) Improving the efficiency of hard coal production

c) Restructuring and management of non-productive assets

d) Management of by-products

**3) Developing electricity production activities**

a) Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station

Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station is considered.

**4) Environmental protection measures.**

#### 4.1.2. Development strategy of Łęczyńska Energetyka Sp. z o.o.

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2017:

Implementation of the investment programme of Łęczyńska Energetyka "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" in stages, i.e.:

Task no. 1 - Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.

The Water Treatment Station, using the water that will come from draining the mine, will be producing potable water, water to make up for heat network losses, and water to make up for losses in the cooling cycle and in the water and steam cycle of the Heat and Power Station being designed.
The Water Treatment Station will be situated in the area of the existing liquid waste treatment plant, which will still be operated, whereas its final section will be situated in the existing water softening building adapted to new purposes.

The first stage of the investment (construction of the Water Treatment Station for the existing infrastructure) will be financed from own funds and a bank loan, and the second stage – related closely with the extension of the heat plant into heat and power station – will be financed with third-party funds (a bank loan).

Currently, tendering documentation is being compiled to grant an order to design and build the Water Treatment Station. In the second half of the year works related to the execution of that investment will commence.

2) Execution of a 69 $MW_t$ and 77 $MW_e$ power unit along with necessary auxiliary installations.

The heat and power station will be based on a OFz-265 (265 t/h of steam) thermal fluidal boiler and a 77 MWe heat generating extraction-and condensation turbine set. As regards production of thermal energy, a new power generation unit will replace the existing stoker-fired boilers. These, once the heat and power station is put into operation, will be used as a backup source for the heat and power station. The produced electric power will be taken off from the heat and power station by means of the existing reception system LW BOGDANKA S.A. (both for the mine and other recipients). The new power unit will burn a mixture of fuels in weigh proportion being 65% of washery slurry, 20% of coal sift and 15% of biomass. Execution if the investment will enable high watt-hour efficiency production, i.e. at a maximum consumption of chemical energy included in the used fuel. This will guarantee the Company the role of the main thermal and electric energy supplier for BOGDANKA S.A. at a cost-free use of washery slurry, the waste product (so far not used) of LW BOGDANKA S.A., as the basic fuel.

Commencement of works related to the Heat and Power Station is conditional upon positive outcome of the process of financing this planned investment project. Financing this project is to take place with the use of an external source of financing (syndicated credit facility or an external investor).

II. Modernisation of Bogdanka-Łęczna heat distribution network.

Modernisation of the heat distribution network at Bogdanka-Łęczna section will mean replacement of the existing insulation at the heat supply main by the new insulation layer, of higher thermal protecting parameters (lower thermal conductivity). Execution of this task will add to reduction of loss during transmission of thermal energy at this section.

III. Garage and storage base in Bogdanka

The need to build a garage and storage base in Bogdanka arises mainly from the fact that the current location of the Company's warehouse interferes with the location of certain structures of the contemplated Combined Heat and Power Station. Therefore, implementation of this project will result in vacating land intended for the construction of the future Combined Heat and Power Station, and will also contribute to improving the conditions of warehouse operation and the conditions of storage of heavy equipment and company cars.

## 4.2. Investments of the LW BOGDANKA Group

### 4.2.1. Material investments of the LW BOGDANKA Group in 2012

In 2012 the LW BOGDANKA Group executed the scope of investment works necessary to double coal extraction in 2014.

A list of key investment expenditure incurred in 2012 is presented in the table below.

Table 15 List of investment expenditure incurred in 2012. [PLN '000]

| Item | 2012 | 2011 |
|---|---|---|
| Investment expenses on acquisition of tangible fixed assets | 568 401 | 718 096 |
| Investment expenses on acquisition of intangible fixed assets | 14 892 | 616 |

Investment expenses (payments according to dates under the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in 2012.

In 2012, due to investment execution the outlays on tangible fixed assets in construction amounted to PLN 644,521,000. These outlays concern the following investment groups:

Table 16 Key material investments of the LW BOGDANKA Group in 2012 [PLN '000]

| Key material investments | Outlays incurred from 1 Jan. 2012 to 31 Dec. 2012 | Outlays incurred from 1 Jan. 2011 to 31 Dec. 2011 |
|---|---|---|
| Construction and assembly works | 328,552 | 504,800 |
| Order picking and purchases of finished goods | 313,720 | 190,787 |
| Other | 2,249 | 3,720 |
| **Total** | **644,521** | **699,307** |

### 4.2.2. Material investments of LW BOGDANKA S.A.

#### 4.2.2.1. Investments in 2012 and the plan for 2013

Table 17 Implementation of investment projects in 2012 and the plan for 2013, as divided into projects [PLN '000]

| Investment projects | | Plan 2012 | 2012 implementation | Plan 2013 |
|---|---|---|---|---|
| **Gr. 1** | **Development investments (development of the Stefanów Field)** | 235,666 | 168,986 | 78,322 |
| **A** | Technical infrastructure (shaft 2.1, development of MCPP, other) | 136,719 | 91,901 | 78,322 |
| **B** | Making coal seams available in the Stefanów Field | 98,947 | 77,085 | 0 |
| **Gr. 2** | **Other development investments** | 7,220 | 4,805 | 34,851 |
| **Gr. 3** | **Replacement investments** | 48,944 | 44,216 | 47,569 |
| **A** | Modernisations and repair of machines and devices | 26,810 | 19,252 | 7,050 |
| **B** | Building and modernisation of structure and installations | 22,134 | 24,964 | 40,519 |
| **Gr. 4** | **Environmental protection** | 8,425 | 10,885 | 12,353 |
| **Gr. 5** | **Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields** | 137,863 | 140,867 | 308,790 |
| **Gr. 6** | **Purchase of machines and devices** | 281,388 | 269,005 | 225,267 |
| | **TOTAL:** | **719,326** | **638,764** | **707,152** |

The main objective of the investment plan of LW BOGDANKA S.A. for 2012 was to continue commenced tasks, aiming at doubling the output in 2014 as compared to 2010.

Investment expenditure for 2012 was planned in the amount of **PLN 719,326,000.**

Implementation of investment expenditure for 2012 amounted to **PLN 638,764,300.**

It was primarily a result of a failure to complete the development investments of PLN 66.68 million in a timely manner, as well as delays in delivery of machinery and equipment worth approx. PLN 12.38 million.

As far as the development investments are concerned, the expenditure for the extension of the mechanical coal processing plant and drilling of workings in the Stefanów Field, has not been completed. The deliveries of machinery and equipment were delayed in respect of self-driven anchoring trolleys, roadheading machines and a roadheader for the Stefanów Field.

**Plan of investment completion for 2012** included:

1. Development investments comprising the construction of the Stefanów Field
    - completion of the construction of storage reservoirs by shaft 2.1;
    - extension of the central air-conditioning system in the Stefanów Field,
    - extension of the Mechanical Coal Processing Plant;
    - making coal deposits available.
2. Other development investments,
3. Replacement investments,
4. Environmental protection investments,
5. Building and modernisation of workings,
6. Purchase of machines and equipment.

**Investments completed in 2012**

**Gr. 1 Development investments**

A Technical infrastructure

*Construction of excavation and ventilation shaft 2.1*

Lifting (skipping) equipment of shaft 2.1 – on 9 May 2012 the permit for continuous operation of the mining shaft lifting equipment in shaft 2.1 was obtained.

*Construction of storage reservoirs in the Stefanów Field*

*Storage reservoir for 3fS excavated material – construction completed. The designing works were started for the next two containers.*

*Construction of buildings in the Stefanów Field –* *the storage lot for palletized goods and the road in the GSTR area were constructed, and the surroundings were recultivated.* The fencing was completed. The expansion of the lamp charging workstation in the lamp room was completed.

*The central air conditioning of the Stefanów Field – the expansion of the underground air conditioning system, of the power of 1 MW, was started.*

*Development of the Mechanical Coal Processing Plant*

**Task 2 –** Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h. In 2012, in connection with a series of additional and replacement works, an annex to an agreement was signed, changing the deadline for performing the subject of the agreement to 31 August 2014, and an agreement on additional works was concluded, while the construction and assembly works were continued, and included the assembly of

machinery and equipment.
All the facilities included in the whole investment may be divided into two main stages, and stage 2 was additionally divided into two parts:

**Stage I part A:** Facility 14.2- Conveyor bridge (existing facility), Facility 14.1-Transfer station (existing facility), Facility 14.4-Conveyor belt (new facility), Facility 16.1-Mixers station (existing facility), Facility 16.5-Conveyor belt (new facility), Facility 16.4-Electrical rooms (new facility), Facility 16.3-Transfer station with connection to Facility 110.1 (new facility), Facility 16.2-Conveyor belt (existing, disassembled facility and new, designer facility), Facility 110.1-Mixtures loading tanks (new facility) steel bridge connecting Facility 110.1 and 15.1 (new facility) ), Facility 111.1 –End station (new facility), Facility 111.2 Carriageway for the charging car (new facility).

All the facilities of stage I part A were completed and put into operation with final and valid decisions of the Director of the Regional Mining Authority (*Okręgowy Urząd Górniczy*).

The trial run of the machinery, equipment and installations has continued since 22 October 2012.

**Stage I part B:** Facility 102.1 – Raw coal tank (existing facility), Facility 104.3 Conveyor bridge (new facility), Facility 104.1 – Transfer station (new facility), Facility 104.2 Conveyor bridge (new facility), 101.1- Initial classification (new facility), Facility 101.5-Conveyor bridge (new facility), Facility 101.6- Conveyor bridge (new facility), Facility 107.1-Transfer station (new facility), Facility 107.4-Conveyor bridge (new facility), Facility 101.2 – Transfer station (new facility), Facility 45.2 – Conveyor bridge (existing facility), Facility 45.1 Transfer station (existing facility), Facility 1.1 Transfer station (existing facility), Facility 1.3 Conveyor bridge (new facility), Facility 3K-Conveyor bridge (existing facility), Facility 1.1K.1-Stone reservoir (existing facility), Facility 2K.2-Conveyor bridge (new facility), Facility 2K.1- Stone reservoir (new facility), Facility 2K.3-Conveyor bridge (new facility). Facility 108.2-Conveyor bridge (new facility), Facility 108.1-Mixtures components tanks (new facility), Facility 108.3 Conveyor bridge (new facility) Facility 109.2-Conveyor bridge (new facility), Facility 109.1-Transfer station (new facility), Facility 55/57-Fire-fighting water station (existing facility), Facility 49.2-Pumping station (existing facility), temporary power supply.

In connection with the completion of the construction and assembly works on 31 December 2012, the technical acceptance commission was appointed for the following facilities: Facility 102.1 – Raw coal tank, Facility 45.1 Transfer station, Facility 1.1 Transfer station, Facility 1.3 Conveyor bridge, Facility 3K- Conveyor bridge, Facility 1.1K.1-Stone reservoir, Facility 2K.2-Conveyor bridge, Facility 2K.1-Stone reservoir, Facility 2K.3- Conveyor bridge, Facility 55/57-Fire-fighting water station. Facility 49.2-Pumping station. What is more, temporary power supply was provided. Finishing works were under way in the remaining facilities in this stage – preparation of facilities for acceptance. The assembly of machines and equipment was under way in all the facilities.

Stage II: 103.1-Heavy drilling fluid (new facility), Facility 103.2- Conveyor belt (new facility), facility 103.3- Conveyor belt (new facility), facility 106.1- Jig drilling fluid (new facility), Facility 106.2- Conveyor belt (new facility), facility 106.3- Belt for the pipelines (new facility), Facility 101.3- Conveyor belt (new facility), facility 101.4- Conveyor belt (new facility), Facilities 46.1 and 47.1- Complex facility (existing facility), GST 1 and GSTR II.

The progress of the works in the respective facilities of the stage is diverse. The construction and assembly works were completed in facility 47.1, and the assembly of machines, equipment and installations was started. The assembly of the steel structure of facilities 103.1 and 106.3 was under way. The steel structure of conveyor bridges 103.2, 103.3 and 106.2 was merged.

B. Making coal seams in the Stefanów Field available

**Progress of the workings of level 990 – 99 running metres of the NE cross heading (completed)**

**Workings that make available seam 385/2 fields VII and VIII – Stefanów –** Under-panel heading 6/VII/385 – 816.0 running metres performer (completed), Over-panel heading 6/VII/385 –3317.0 running metres performed, Technological cross-heading 6/VII/385 – 303.8 running metres performed (completed), Under-panel heading 1/VIII/385 – 1018.5 running metres performed (completed), Over-panel heading 1/VIII/385 –4407.0 running metres performed

**Gr. 2 Other development investments**

**Starting the extraction of stone through shaft 1.5 in the Nadrybie Field –** the Technical Council selected the concept of stone transport from the workings through shaft 1.5, which will be presented for approval by the Management Board.
**Central air conditioning for the Bogdanka Field** – based on the prepared concept, a tender for its designing and execution was announced.
**Expansion of the mine with a new extraction field – geological information was purchased for OG Cyców.**

**Gr. 3 Replacement investments**

A. **Modernization and repairs of machinery and equipment**
- one AM-75 cutting machine was modernized, as well as one 4LS8 longwall cutting machine, four S+200 diesel locomotives, the modernization of belt conveyors was performed, and 3 items of pump pressure aggregates were modernized, Bevex 60 diesel locomotives were modernized. 50 bogies underwent periodic renovation.

B. **Construction and modernization of buildings and installations**
- the premises for the memory room in the Management Board building were performed, the installation of the gantry crane and the pavement for the storage site were completed in the Nadrybie field, and the bogie sprinkling station was installed in Bogdanka. The expansion of the parking lot in Nadrybie, the modernization of the KSRG building and the preparation of the rescue service premises were completed. The coal parameter control IT system was developed, and the mine operating network system was updated. The modernization and thermal insulation in the MW storage in Albertów, and the parking lot in Bogdanka, were started.

The development of the module in the telephone exchange office and of the SD - 2000 system in Stefanów were completed, an agreement was signed for the modernization of the 110/6 kV station in Bogdanka, Stefanów and Nadrybie.

**Gr. 4** **-** Landfill in Bogdanka – the development is performed based on the concluded agreement, and the purchasing continues of the lands for the "Szczecin" reservoir.

**Gr. 5** - in 2012 the drilling of the haulage heading 1/II/385 and of the N-2 cross heading for providing access for field I and II (excavation) were started in seam 385/2. The workings were prepared in order to make available field V in seam 391. The division of the working of seams 382 and 385/2 were continued for the purpose of starting new mining longwalls.

**Gr. 6 Purchases of machines and devices**

**Purchase and assembly of longwall complexes –** Coal-ploughing complex No. 2 – the second coal-ploughing complex was purchased for wall 2/VI/385. The wall was started in November.
**Purchase and assembly of new machines and devices –** the machines and devices for the total amount of PLN 52,460,800 were purchased and assembled. The most important ones were: suspended diesel locomotives – 10 items, ventilation stoppings – 6 items, belt conveyors – 17 items, scraper conveyors – 2 items, cooling devices – 2 items, roadheading machines – 6 items.
**Purchases of fixed assets –** The fixed assets of the value of PLN 38,176,200 were purchased. Ready-made transportation devices (bogies, hoists, containers, bogies for excavated material) – 248 items, hydraulic pumps and aggregates – 233 items, electric devices (Transfer stations, engines, counters) – 68 items, fans – 7 items.

**Plans for 2013**

**Gr. 1 Development investments - planned outlays of PLN 78,322,000:**

A. Technical infrastructure

- construction of buildings above the ground in the Stefanów Field tower crane, cableway umbrella roof, heating for the S 2.2 lift machinery room
-
- central air-conditioning system of the Stefanów Field - development
- continued expansion of the Mechanical Coal Processing Plant in order to obtain the processing capacity at the level of 2,400 t/day, and development of coal storage area
- processing capacity at the level of 2,400 t/day, and development of coal storage area

**Gr. 2 Other development investments – the planned expenditure amounts to PLN 34,851,000**

- starting the stone extraction through shaft 1.5 – preparation of the projects for developing shaft 1.5
- central air-conditioning system of the Bogdanka Field - construction
- integrated production management system – underground wireless communication, team underground movement identification system, GPS supervision system for the buildings in the areas of mining damage
- on the mine with a new extraction field – research and documentation works

**Gr. 3 Reconstruction works – the planned expenditure amounts to PLN 47,569,000**

**A.** Modernization and repairs of machinery and equipment

The following will be modernized: AM-75 cutting machines, LZH-50 Scharf diesel locomotives, Bevex 60 suspended locomotives and hydraulic bolting machines.

As regards the repairs, the periodic repairs of bogies

**B.** Building and modernisation of structure and installations

Investments related to building new and modernising the existing construction facilities will take place:

- railway investments – installation of the devices of automatic crossing signalling, purchase and assembly of kilometer counters for wagons, installation of carriageway pavement on the crossing, performance of the technical and economic assumptions associated with electrifying the lay-by from Jaszczów to Bogdanka.
- construction of building structures above the ground in the Nadrybie and Bogdanka fields – installation of the anti-icing roof system, building the water treatment station for underground firefighting purposes
- modernization of existing construction structures – roads and lots in shaft 1.2, modernization of the workshop building in Bogdanka (WARBO), modernization of the lamp room building in Nadrybie, expansion of parking lots in Bogdanka, performance of thermal modernization works of the MW storage buildings in Albertów, of the road and lots in Nadrybie, expansion of the oil and lubricant warehouse in Bogdanka, modernization of the lot at S 1.3, redevelopment of bathrooms in the canteen in Bogdanka, modernization of the engine shed in Zawadów.
- the facilities of the 110 kV switching stations, lifting equipment and other power engineering systems – the following will undergo modernization: the 110/6 kV station in Nadrybie, 6 kV and GSTR 110/6 switching station in Bogdanka, the 110 kV overhead power lines Łęczna – Bogdanka, Bogdanka – Nadrybie and Bogdanka – Stefanów will be redeveloped
- low-voltage supply and control systems and workshops - development of installation and devices in the new battery locomotives depot and battery charging rooms at R-27
- telecommunications systems and devices – development of the module in the telephone exchange office in the MCPP and in Nadrybie, S 2.1 and S 2.2 shaft communication devices
- power supply and telecommunication networks - new power supply, telecommunication and data transmission networks will be built
- alarm and monitoring systems – development of the fire signalling system in the construction facilities of the Company, and of the system of monitoring the Company's facilities
- computer management system – introduction of network and server security systems, and the system for supervising the lands and construction structures; purchase of software dedicated for the mine
- assembly of new machinery and equipment – installation of the device for reviewing the storage reservoirs, the airflow control system in the pressure station at S 2.1, installation of a stationary crane in the section regeneration hall, construction of an emulsion pipeline to the wall of the coal-ploughing complex
- MCPP replacement investments – modernization of steel structures and MCPP elevations and of electromagnetic separator stations, warehouse umbrella roof and installation of devices for measuring the parameters of the raw coal quality from Stefanów

**Gr. 4 Environmental protection - planned outlays of PLN 12,353,000:**

Proenvironmental undertakings include works related to development of the mine waste storage yard and designing of the "Szczecin" water reservoir in the area of the basin formed as a result of mining.

**Gr. 5 Building and modernisation of workings in the Bogdanka, Nadrybie and Stefanów Fields - planned outlays of PLN 308,790,000:**

Longwall workings will be drilled within the scope necessary for new panels that should be started to maintain production and drilling of workings to make available seam 385/2 in field II. Rebuilding of mining workings will also be performed.

**Gr. 6 Purchase of machines and devices - planned outlays of PLN 225,267,200**

Purchase of panel complexes - the group includes purchase of a 55-metre extension to the coal ploughing system for the second coal ploughing panel and starting the purchase procedure of the fourth coal ploughing system.

Purchase and installation of machines and devices - it is planned to purchase machines and devices that require installation at the work station, such as: suspended locomotives, belt and scraper conveyors, roadheading machines, as well as panel winning machines.

#### 4.2.2.2. Assessment of the possibilities of investment plans' execution

The Company plans that the structure of financing its property investment expenses will not change significantly, i.e. they will mainly be financed from own funds and the debt held.

At the same time, the Management Board does not preclude the possibility to increase further the share of debt in financing the planned investments. As at the date of providing this Report, LW BOGDANKA S.A. sees no threat as to the possibility to acquire additional financing in the form of debt.

As at 31 December 2012 the Company's loans in the total amount of PLN 441 million accounted for approx. 19.34% of the shareholders' equity and approx. 12.73% of the balance-sheet total.

#### 4.2.2.3. Investments and expenditure deposits of the LW BOGDANKA Group

Lubelski Węgiel BOGDANKA did not make any capital expenditure in 2012.

In 2013, the Company does not preclude participation in its subsidiary company's project, subject to obtaining corporate approvals, and pursuance, by Łęczyńska Energetyka, of its own development strategy involving construction of a heat and power station. A final decision will depend on selection of the investment variant.

The Company plans to establish a subsidiary to carry out business activity involving mining services.

In 2012 the subsidiary made no significant capital investments. The subsidiary deposited free cash in bank deposits with maturity of 1 month and 3 months. An average balance of cash in bank deposits amounted to PLN 30 million.

### 4.3. Investments of Łęczyńska Energetyka Sp. z o.o.

### 4.3.1. Investments in 2011-2012

Table 18 Investment expenditure incurred in the 12 months of 2012 and 12 months of 2011 [PLN '000]

| Item | 1 Jan. 2012 – 31 Dec. 2012 | 1 Jan. 2011 – 31 Dec. 2011 |
|---|---|---|
| Investment expenses on acquisition of tangible fixed assets | 5 468,0 | 7 196,0 |
| Investment expenses on acquisition of intangible fixed assets | 0,0 | 11,0 |

Investment expenses (payments according to dates under the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in 2012.

Investment tasks completed in 2010-2012 included:

- purchase of machines and facilities necessary for production purposes,
- necessary modernization of buildings, structures and machines,
- purchase of vehicles for the supply department.

The total amount of investment expenditure incurred in 2010-2012 amounted to PLN 27,455,000. In the discussed period of three years, expenditure on modernization of buildings and structures, which amounted to PLN 24,570,000, thus making up 89.5% of all expenditure.

The table below presents the value of investment expenditure incurred in 2010-2012 broken down by groups of fixed assets:

Table 19 Value of investment expenditure incurred in 2010 - 2012 broken down by groups of fixed assets [PLN '000]

| Group of fixed assets | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|
| | PLN '000 | % | PLN '000 | % | PLN '000 | % |
| Own land | - | - | - | - | 55.0 | 1.0 |
| Buildings and structures | 14,501.0 | 98.1 | 5,298.0 | 73.5 | 4,771.0 | 87.3 |
| Machines and devices | 140.0 | 0.9 | 1,620.0 | 22.5 | 426.0 | 7.8 |
| Vehicles | 127.0 | 0.9 | 241.0 | 3.4 | 83.0 | 1.5 |
| Intangible fixed assets | 4.0 | 0.0 | 11.0 | 0.1 | 0.0 | 0.0 |
| Other | 8.0 | 0.1 | 37.0 | 0.5 | 133.0 | 2.4 |
| Total | 14,780.0 | 100.0 | 7,207.0 | 100.0 | 5,468.0 | 100.0 |

Table 20 Key material investments of ŁE in the 12 months of 2012 and the 12 months of 2011 [PLN '000]

| Key material investments | Outlays incurred from 1 Jan. 2012 to 31 Dec. 2012 | Outlays incurred from 1 Jan. 2011 to 31 Dec. 2011 |
|---|---|---|
| Construction and assembly works | 4,771.0 | 5,298.0 |
| Order picking and purchases of finished goods | 564.0 | 1,861.0 |
| Other | 133.0 | 37.0 |
| Prepayments for fixed assets under construction | - | - |
| Total | 5,468.0 | 7,196.0 |

Modernization works for the buildings and structures within the above-mentioned periods are related to the following fixed assets:

1) modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant,

2) modernization of the office part in the boiler house in Bogdanka,

3) modernisation of a central heating section in Stefanów,

4) replacement of the belt in the deslagging machine associated with K-7 boiler in Bogdanka,
5) modernisation of the W-5 substation building in Łęczna,
6) modernisation of the W1A and K-1 multi-consumer heat distribution unit in Łęczna,
7) replacement of the insulation on the Bogdanka-Łęczna heat supply main,
8) modernisation of the hydrophore plant building and the water treatment station in Nadrybie,
9) replacement of a section of the water supply system near the pumping station in Stefanów,
10) modernisation of the rainwater pumping station in Bogdanka,
11) modernisation of the hydrophore plant building and the water treatment station in Bogdanka,
12) modernisation of the V-500 $m^3$ treated water tank building,
13) modernisation of inlet air heating for the S shaft 1.5 in Nadrybie,
14) modernisation and the refurbishment of the administration building in Bogdanka.

In 2010-2012, the investments were financed from own funds.

The major task in the Company's 2012 investment plan was the commencement of works under the various component projects associated with the overall project aimed at modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production (construction of the Water Treatment Station for treating the pit waters from mine drainage at LW BOGDANKA S.A. together with the construction of technological connections with the hydrophore plant and the Heat-Generation Plant premises, and construction of a fluidised bed combustion boiler along with the pass-out and condensing turbine-generator unit and construction of the remaining infrastructure required for the correct operation of the heat and power station). Due to changes in the capacity of the contemplated Water Treatment Station (increase of its capacity resulting from the needs of LW BOGDANKA S.A.), it was necessary to make changes to the existing design and working documentation. In that situation, it was also necessary to amend the building permit decision (it is expected to be obtained in the first half of 2013), which, in turn, forces the Company to move the commencement of the investment to 2013. The first stage of this investment (building the Water Treatment Station (SUW) for the existing infrastructure) will be financed from own funds and a bank loan, while the second stage, closely associated with the extension of the heat-generating plant into a combined heat and power station, will be financed with external funds (bank loan).

As for the commencement of works associated with the construction of the fluidised bed combustion boiler along with the pass-out and condensing turbine-generator unit and construction of the remaining infrastructure required for the correct operation of the heat and power station, it is contingent upon the closure of project financing as those projects are to be funded with the help of an external source of financing (a syndicated loan or a third-party investor). Last year, the Management Board of Łęczyńska Energetyka was involved in negotiations regarding the above issue with potential parties to the investment. However, due to the ambiguous regulatory situation in energy law and environmental protection legislation, potential investors refrain from making decisions to finance new investments (including the investments at our Company), as a result of which Łęczyńska Energetyka is unable to close the negotiations on obtaining sources of financing for the project. This year, the Company will continue its efforts in this area, and will continue to negotiate with Polish and foreign entities in order to enter into a financing agreement for the project, thus allowing commencement of a tendering procedure to select a Contractor.

A summary of the Company's investment plans is shown in section 2.

A strategic investment task of the Subsidiary is the "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production".

In 2013, efforts aimed at modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production will continue as further negotiations will be held with potential Polish and foreign parties (financial and industry investors) regarding the closure of project financing.

As for building the Water Treatment Station, there are plans to conduct a tendering procedure this financial year to select a Contractor, and to commence works associated with the first stage of that investment (building the Water Treatment Station for the existing infrastructure).

## 4.4 Development, research and implementation works in the Group

In 2012 the following important research, development and implementation works took place in the Parent Undertaking:

1. The coal ploughing technique for coal mining in mining panels of thin seams 1.2 - 1.7 was successfully introduced. In October 2012, 2/VI/385 excavating panel in the Nadrybie Field, using the second coal ploughing system purchased in 2012, was started. The 7/VII/385 panel, using the first coal ploughing system (started in the beginning of October 2011) with the largest in so-far industry panel length of more than 5 km, covered excavation in the entire 2012. As at the end of 2012 the wall achieved the length of 4,445 m, and less than 600 m remains for mining. Average production from this panel in the entire 2012 amounted to slightly more than 12,000 tonnes a day.

   In 2012 a tender procedure took place (it ended by signing a contract just in 2013) for purchase of the third coal ploughing system, for 3/VI/385 panel planned to be started at the end of 2014.

2. In 2012 works concerning improvement of the process system and mechanical equipment of the coal ploughing systems were continued. In the period preceding the year 2012, two new mechanic solutions for self-loading of coal "discharged" through the coal plough to the longwall headings were prepared (in the current process system roadheading machines are used to load the coal on the crossing of both longwall headings with the panel) and a mechanised casing by the under-panel heading. The created prototype devices were tested underground in 2012. The self-loading coal device, operating initially in 7/VII/385 panel at the side of the under-panel heading was implemented also on the side of the over-panel heading. The second ploughing system is also equipped in the self-loading coal device.

   The second new device (powered lining section of the cavity) underwent the compliance assessment procedure in the 1st half of 2012, in the Institute of Mining Technology KOMAG in Gliwice, which ended with obtaining the WE type certificate of compliance of fundamental requirements (ATEX). Since June 2012 it has worked in wall 7/VII/385 in Stefanów, where it fully proved its usefulness. That device improves the safety of employees in the cavity – thanks to powering the cavity, the members of the team work under a safe roof, and control the device from the heading. In the 2nd half of 2012 that device was implemented at the second heading in wall 7/VII/385, and tests were performed in cutting machine walls.

   In 2012 the works were started on the new device earmarked for withdrawing the heading casing during the closedown of the heading during longwall exploitation. As a result of the works, there was produced a new, prototype device, for which the "on site" tests will be performed in 2013.

3. Experimental and implementation works were continued - they were meant to provide an alternative for currently used exploitation system in which both longway headings are liquidated along with the panels' progress. In 2010 the longway heading left behind the panel 1/VI in seam 385/2 was maintained - it was protected by means of a special protecting strip along the entire panel's length, i.e. approx. 1,750 m. Wall 2/VI/385 was started at the end of 2012, for which that heading is a top heading. At present that heading

(after being used twice) will be removed during longwall exploitation. After ending the wall, the will be possible to assess in full, in technical and economic terms, the new and the previous method of working the headings from the point of view of maintaining the longwall headings behind the wall, in the geological and mining conditions of the Bogdanka mine.

4. In 2012 works meant to develop and implement a new technology were continued. The technology will enable coal exploitation by means of short-font system and, at the same time, filling the space with stone obtained from preparatory works. Basing on headings prepared with the standard arch yielding – support casings, exploitation with use of the heading system would be continued. These workings will be introduced in anchor casings with rectangular cross-sections. The post-exploitation area will be filled with rock. After gaining appropriate experience, the expansion is planned for the scope of activities, by filling the workings with dangerous waste, admissible by law to be stored in the mine pit. The first stage is planned to include the launch of one excavation complex. In the case of positive results, it is assumed that more exploitation complexes will be launched.

5. In 2012 works over new technology and mechanisation complex for drilling the corridor workings with the use of a high-powered heading coal-cutting machine were continued. AM-75 cutting machines are used in the present technology of drilling. In previous years basic solutions for this complex were prepared. Apart from the coal-cutting machine the complex will be provided with an extra anchoring device (self-driven two-hoist anchoring machine) and a mobile platform for preliminary installation of the lining behind the coal-cutting machine and its translocation into the centre. This will enable performing some activities during the heading's drilling cycle. The new complex and prepared technology are to make it possible to increase drilling of the corridor workings. In 2012 works meant to order the first face complex were conducted, which, however, did not end with signing a contract.

6. In July 2012, within the scope of works meant to improve the headings lining system, as a test, in an over-panel heading in 1/VIII/385 panel in Stefanów, at the excavated cavities of 7/VII/385 panel, gates lining made form new type high-strength parameters steel were used. It is produced by way of thermal treatment by Heitzmann (Germany). The lining is an alternative solution to the new steel developed within framework of the special-purpose research project realised by the Main Mining Institute in Katowice and "Łabędy" Steelworks in Gliwice, which was tested in the Bogdanka mine in 2011.

### 4.5 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Group in the perspective of at least another year

#### 4.5.1 Risk associated with the Group's social, economic and market environment

##### 4.5.1.1 Risk associated with the social and economic situation in Poland and the world

The LW BOGDANKA Group's financial standing depends on the economic situation in Poland and the world. The financial results generated by the Group are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, the demand for electricity and heat energy, the level of inflation, the rate of unemployment, and changes in exchange rates, etc.

In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Group may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the Group results is mitigated. This thesis can be confirmed by the fact that regardless of the changes in the macro-economic situation in Poland and in the world, The LW BOGDANKA Group has been consistently achieving positive financial results since 1994. The Group's financial performance may also deteriorate if the existing taxes or charges (including the mining royalties) are raised or new taxes or charges on hard coal mining are introduced.

#### 4.5.1.2 Risk associated with the economic policy of the State in relation to the hard coal mining sector

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA Group's market position. Those plans are set forth in particular in two documents:

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007,
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009.
- "The privatisation plan for 2012-2013" adopted by the Council of Ministers in March 2012.

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of the Group.

#### 4.5.1.3 Risk associated with the levels of prices for raw materials for power production in Poland and the world

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The current difficult situation on global financial markets, crisis and recession in the Euro zone, crisis in the Middle East (Iran, Syria), economic slowdown in China, economic slowdown in Poland and increases in unsold coal stocks faced by both global and domestic producers due to a decrease in demand for coal may also exert an influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Group. LW BOGDANKA mitigates the risk associated with prices of raw materials for energy production by undertaking measures aimed at lowering the internal costs of mining, and thereby increasing its competitiveness. Another measure consists in signing long-term commercial contracts with key customers purchasing power coal.

#### 4.5.1.4 Risk associated with the introduction of the excise tax in relation to coal

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the latter directive, the Republic of Poland could apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke was not charged. The regulations which became effective after the lapse of the transitional period referred to above, i.e. from 1 January 2012 on, may result in higher prices of coal for heating purposes for end users, a greater number of burdensome formal requirements as regards documenting the sale of excise tax-exempt coal, and a diminished coal competitiveness with respect to other energy carriers, which in turn may have an adverse effect on future financial results of all entities operating in the hard coal mining industry in Poland, including the LW BOGDANKA Group. However, the risk to the Group's operations is limited owing to the fact that LW BOGDANKA S.A. sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers. Moreover, it is important to emphasise that due to its relatively low costs of hard coal extraction, the Group can respond to the changing market circumstances more flexibly as far as the introduction of excise tax (and new taxes: coal tax or other taxes related to the use of coal as fuel, including a possible tax on mineral deposits) is concerned.

Excise tax risk is also related to ambiguous interpretation of the new tax law and the possibility of formal errors being made that may lead to the excise tax-exempt status of a sale being revoked. The Group mitigates that risk by providing excise tax training and co-operating with reputable tax advisors, as well as by requesting tax authorities to issue individual tax rulings and by introducing in trade contracts a provision that transfers the potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

#### 4.5.1.5 Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Group and hence have an adverse effect on the Group's financial results (alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results). In the Group's assessment, the interest rate risk currently has a limited bearing on the financial standing of the LW BOGDANKA Group. given a relatively low degree of financing the Company's assets with interest-bearing third party capital. This risk may increase significantly in the case of a considerable growth in debt financing which is related to the Parent Undertaking's development strategy currently implemented (extension of the Stefanów Field), and the development strategy of Łęczyńska Energetyka, the subsidiary, which consists in the execution of the investment "Modernization and extension of the heating plant in Bogdanka into a combined heat and power generating plant". The shareholders' decisions regarding the distribution of net profit will also affect the possibility of increasing the debt. The Group does not use any hedging instruments against the risk of fluctuations in interest rates.

#### 4.5.1.6 Risk associated with changes in exchange rates

In February 2013 the Company concluded an agreement with Caterpillar Global Mining Europe GmbH for the supply of a wall ploughing system; the currency of the Agreement is EUR. A significant change in the EUR exchange rate may have an adverse effect on the Group's financial situation.

LW BOGDANKA S.A. will take measures to protect itself against the currency exchange risk.

#### 4.5.1.7 Risk associated with the impact of current macroeconomic situation on debt financing availability

Currently the LW BOGDANKA Group implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds and debt financing (currently totalling PLN 441 million).

At present, LW BOGDANKA sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments, however due to the Company's indebtedness which has been increasing over last years, as well as due to the unsteady situation on financial markets, it is estimated that the possible costs of its acquisition will be higher than those currently incurred. The current interest-bearing debt in the amount of PLN 441 million accounts for 19.2% of Group's equity and 12.7% of the balance-sheet total.

#### 4.5.1.8 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of the LW BOGDANKA Group are exposed to risks and dangers beyond its control resulting from the specific nature of conducting activities in the mining industry. These include events associated with the environment (e.g. industrial and technological malfunctions) and extraordinary events, e.g. geotechnical phenomena, mining disasters, fires or flooding of excavations with mine waters. Such events or phenomena could cause a temporary suspension of the (LW BOGDANKA) Group's operating activities or losses relating to property, financial assets and employees or could result in the Group being held legally liable. The most important natural hazards occurring in the mine include:

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale),
- methane hazard – methane category I (on a four-grade scale),
- water hazard – category I and II (on a three-grade scale);
- hazards connected with changing geological and mining conditions at the exploitation fronts.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group in the future. The Company has a mandatory obligation to create a mining damage fund to finance costs related to this sphere of the Company's activity. The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the relatively low risk of a methane explosion (category 1 methane threat on a four-grade scale).

Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA's operations include:

- the Company's use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no geological disruptions occurring and the fact that the mining seams are relatively regularly laid out;
- the relatively low costs of repairing mining damage resulting from the low urbanisation of the area in which LW BOGDANKA S.A. extracts hard coal;
- high qualifications of the personnel.

#### 4.5.1.9 Risk of restrictive EU climate policy also with respect to the CO2 emissions

The European Commission declares limiting the CO2 emissions by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by 20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20-20-20" targets. Moreover, it suggests introducing a system of auctions for emission permits from 2013. The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW BOGDANKA Group, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO2 emissions for particular sectors of the economy are still pending and no binding decisions have been made. Consequently, the level of actual future limitations applicable to CO2 emissions is not known yet. At the same time, in the world (the USA, China, Australia) new technologies - i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO2 emissions.

#### 4.5.1.10 Risk of a decrease in demand for hard coal from the Polish power industry

There is a limited risk that the Polish power industry may be able to switch to a raw material other than hard coal within the next 10 years. The LW BOGDANKA Group has long-term contracts which secure it from the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. LW BOGDANKA takes measures aimed at further long–term securing of its provision of coal for commercial power production, relating to existing and prospective power units within the area of its operations. The Company with other entities is also taking action to explore the possibilities to increase the use of hard coal in Poland, which involves the future introduction of a coal gasification installation.

#### 4.5.1.11 Risk of hostile takeover of the Group

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange, has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. In consequence LW BOGDANKA S.A. became a private entity, 90.5% shares of which can be subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to 11.5 million tonnes of coal per year (staring from 2014), and consequently, the achievement of better results as well as technical and economic and financial indices. The prospects of such a growth, together with the lack of full economic effects prior to the programme completion in 2014, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

The Management Board undertakes actions the aim of which is to increase the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation. It is also important to show to investors the real value of shares, both in relation to the currently achieved results as well as to our resource potential and growth perspectives.

### 4.5.2 Risks directly associated with the Group's operations

#### 4.5.2.1 Risk associated with the launch of extraction of new deposits at LW BOGDANKA

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of LW BOGDANKA may be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results of LW BOGDANKA.

#### 4.5.2.2 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of the (LW BOGDANKA) Group, and therefore on the financial results achieved by it in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. uses the longwall system and currently extracts coal from three mining faces which operate simultaneously. At the target production capacity, however, coal is obtained from four mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the LW Bogdanka mine has a system of underground coal storage reservoirs. Three new reservoirs have recently been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations and conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the Group's technical and technological risk.

In this group of risks, there is also the risk of unexpected, usually local, deterioration of the quality of the deposit, for example due to reduction of the thickness of the seam, uncovering waste rock concentrations or waviness of the seam, which will result in deterioration of the coal (an increase in amount of stone mined with the coal). In such a case, in spite of achievement of the full gross output and increased costs thereof (difficulties with mining the stone, greater wear of tools and means of transport, increased costs of processing and storage of stone, etc.), the amount of commercial coal obtained will be reduced, which will influence economic performance.

#### 4.5.2.3 Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by LW Bogdanka involves the use of highly specialised machines and equipment produced only by several producers in the world. As a result of the Company's investment plans described in section 8.4 of the Prospectus and referring to the "Stefanów Field" extension, it will be necessary to make investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Group's development strategy.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation) and is based on specialist equipment manufactured by only company in the world. In 2012, LW Bogdanka purchased another longwall ploughing complex and plans to purchase a third one. In addition to the high costs of purchasing such equipment, there is a risk of high costs of purchasing spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

The risk of increased mining costs associated with the depth of mining will be growing. In 2014, mining of coal from seam 382 will end. Instead, mining of seam 391 will begin, which seam is located about 100 m below seam 382. As the depth increases, the difficulty of maintaining the workings (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs.

#### 4.5.2.4 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of LW Bogdanka's computer systems may adversely affect the LW BOGDANKA's Group ongoing operations and therefore affect its future financial results. The Group underlines, however, that LW BOGDANKA systematically takes actions aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." regulating organisational and technical measures for IT environment protection. This refers to the organisation of access to data, making safety copies and their storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VPN secure connections, anti-virus systems for the purpose of protection servers and user workstations.

The procedures for maintaining the continuity of all key IT systems' operation have been designed and implemented. A risk analysis system, regarding the IT system and others, has been implemented and is being updated.

The servers supporting the systems are a high-class equipment. Oracle main databases and virtual server environment have been created in accordance with failover clustering technology. Clusters are located in two locations. Main and backup server room of LW BOGDANKA S.A. is subject to continuous monitoring of environmental variables. Each server room is equipped with a UPS and air conditioning. In addition, the main server room is equipped with a redundant UPS, a dedicated sprinkler system, and a dedicated precision air conditioning.

Since 2011, an integrated supporting Internet security system has also been implemented. In order to increase the level of network security and to improve the management of user accounts and workstations, the implementation of a domain name system is under way, which is expected to enable further standardisation and IT integration.

IT systems used at the LW BOGDANKA Group have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened

#### 4.5.2.5 Key customer risk

Vast majority of the power coal produced by the LW BOGDANKA Group is sold to a relatively small group of large contracting parties operating on the domestic market. There is therefore a risk that the reduction or termination of cooperation with a key customer or the deterioration of the financial/economic situation of any of the main customers of the Group could have an adverse effect on the financial results.

As at the day of submitting the Report, the Company has signed contracts for the entire sales of coal for 2013, and has an agreement with Enea Elektrownia Kozienice S.A. which ensures a safe market for coal in the long-term perspective until 2025. In 2012, the Group signed new contracts with GDF Suez Energia Polska S.A. – (Elektrownia Połaniec) and with PGNiG Termika S.A. (formerly Vattenfall, Elektrociepłownie Żerań and Siekierki in Warsaw), Ożarów S.A. Group (Ożarów and Rejowiec Cement Plants), and has stable contracts with Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o. (formerly Energokrak, supplies to EDF Elektrownia Rybnik S.A.), which guarantee supplies of power coal for the next five years.

Furthermore, the Group has concluded conditional agreements with Enea Elektrownia Kozienice S.A., Energa Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future power coal supplies to new power units which, once the conditions precedent are met, will guarantee sales of coal at least until 2036. The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Group might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective.

In connection with its conditional nature, the aforementioned agreement with Energa Elektrownie Ostrołęka as regards future supplies for the newly constructed power unit C was terminated on 30 October 2012. The cause of termination, as given by the power plant, were changes in the market parameters of financing this investment and take-over of the Long-Term Investment Plan by the Energa Group, as a result of which the power unit C construction project was suspended and, therefore, the start date of power unit C operation, scheduled for 2016, will not be met. Termination of the agreement has no financial effect on the current situation of the Company, as the agreement related to a project of future supplies for which the Group assumes a high degree of risk related to failure to implement the project due to the requirement to ensure financing for the power unit C investment. The agreement is currently in the course of the 3 years' notice period. The terminated agreement does not apply to the current supplies to Energa Elektrownie Ostrołęka S.A., which take place in accordance with the terms of a separate agreement.

The LW BOGDANKA Group mitigates the risk of long-term contracts by analysing the situation on the coal supplies and energy market and the forecasts related thereto, as well as by co-operating with renowned institutions dealing with energy sources market analysis and by co-operating with first-rate law firms. Managing the risk of long-term contracts is aimed at reducing the degree to which the Company may be affected by the risk of disadvantageous situation in coal pricing in the market through appropriate stipulation of agreements that ensures stability of supplies for commercial power industry.

Information concerning significant trade agreements signed by the Group in 2012 and after the balance sheet date is provided in section 2.1 of the Report.

There is also a risk that energy investments in new capacities will not be implemented, or that energy investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed – which may cause a problem for the Group regarding allocation of significant volumes of coal originating from increased extraction. The Group mitigates this risk by looking for new customers who would diversify alternative sale options and would for example use the Company's coal to mix it with imported or domestic coal from other producers.

There is also a potential risk that as a result of investment delays in the Company, the level of higher extraction will be achieved later than it is assumed in the investment, mining and coal sales plans. This may bring about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by the LW BOGDANKA Group. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

#### 4.5.2.6 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company

On both the Polish market and export markets, the LW BOGDANKA Group is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan) as well as supplies by other global producers delivered by sea (from the ports of Amsterdam, Rotterdam and Antwerp).

In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme.

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage. In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition. Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in LW BOGDANKA S.A. to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. Because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers of LW BOGDANKA have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA S.A. is in the Group's opinion significantly limited.

#### 4.5.2.7 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Group's receivables in comparison to liabilities. As of the end of 2012, trade debtors and other short-term receivables of the Company accounted for 6.78% of the carrying value and 12.83% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total short-term receivables accounted for 80.40%.

In order to protect against the risk of potential insolvency of its customers, the Group continuously monitors customers' arrears associated with making payments for the products sold (including for the main product - power coal), by analysing the credit risk for the main customers individually, or by the respective classes of assets. Moreover, as part of the credit risk management, the Group makes transactions solely with those customers whose creditworthiness has been confirmed. For many years the Group has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

#### 4.5.2.8 Risk of delays in planned investments due to the obligation to comply with the Public Procurement Law

The LW BOGDANKA Group is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of those tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. LW Bogdanka exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible. Construction and assembly works, in accordance with a concluded arrangement, should be completed by the end of 2013. In 2014 commissioning procedures and test run of the plant will be started. In accordance with an annex to the agreement, the whole investment should be completed by the end of 31 August 2014, so that full extraction of approx. 11 million tonnes could commence in 2014. As a result, full coal beneficiation will be possible starting from 2014 when the extension of the Mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers. The agreement with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A., the subject matter of which is the extension of the Mechanical Coal Processing Plant, and which covers detailed designs, facility construction, delivery of machines and equipment, on-site assembly, launch and start-up of machines and equipment, and obtaining permits for use, was described in the Issue Prospectus of LW Bogdanka S.A. of 21 December 2011 in section 8.6.7.1, and the annex to the agreement – in Current Report No. 45/2012 of 6 September 2012.

#### 4.5.2.9 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group associating the total of 64% of the Group's employees (in LW there are four trade union organisations associating 63% of the crew). It concerns also possible protests connected with a risk of the Company's hostile takeover. The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect mainly the financial results of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by LW BOGDANKA. This also refers to possible protests related to the risk of hostile takeover of LW BOGDANKA, and thus the entire Group.

In the Group's opinion, cooperation of the Management Boards of the Parent Undertaking and the Group's subsidiary with the trade unions operating in the Group has so far been successful. The Group's objectives include continuation of the cooperation between its Management Boards and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving companies' and the entire Group's objectives and strategy.

#### 4.5.2.10 Risk associated with retaining and attracting human resources for LW BOGDANKA

The Company's demand for human resources results from its development strategy which involves increasing the extraction capacity in connection with the extension of the Stefanów Field, as well as the age structure of the Company's staff and the effective retirement laws under which until 2015 approx. 30% of the Company's employees, including mostly the employees working underground, will acquire pension rights. The employment increase in consecutive years will take place gradually, in line with the Company's demand for human resources in connection with the extension of the mine and the Coal Mechanic Processing Plant, as well as the increasing production capacity; new employees will be recruited mostly from mining schools graduates.

This goal has been largely achieved. The year 2012 was the last year in which the Company planned to increase employment, apart from filling positions left vacant through natural wastage. The planned increase in employment was estimated at 250 people. For various reasons, this plan was not fulfilled in 2012, and was rescheduled for the second half of 2013. The change was brought about by the adoption of the PTE in which such provisions were laid down. In the subsequent years employment is expected to remain at a constant level, i.e. the recruitment process will focus mainly on filling vacancies.

The mining law requires that the persons employed in the mine operation had certain qualifications awarded to persons which have, inter alia, several years of work experience.

There is a risk that potential difficulties in obtaining appropriate employees may have an adverse effect on the operating activity of LW BOGDANKA, including the extraction volume and production costs, and thereby also on the Company's financial result.

The Company runs active human resources policy which is aimed at limiting human resources-related risks. Since 2007, the Company had been gradually hiring young employees who gained the necessary mining experience and the required qualifications by 2011 (completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

To satisfy the above mentioned needs, vocational education has been reactivated and extended. Since 2005, the Secondary Technical School, and since 2008, the Post-Secondary Mining School have been operating in Łęczna. Those schools provide graduates with proved professional qualifications required in the mining industry and make it possible to supplement and increase the qualifications of persons employed by the Company.

So far the Company has experienced no major difficulties in attracting young and well-qualified personnel. The reactivated vocational training schemes discussed above essentially meet the Company's needs; therefore no risks have been identified in that area. Changes concerning the organisation of non-stationary vocational schooling (a system of courses), which were developed at the turn of 2011 and 2012, and will be introduced in the next school year, will not exert any influence on education, and thus, on the recruitment of new personnel.

A Company-independent factor which increases the risk of destabilisation of employment are the continued and protracted discussions and work of the government and the parliament on the pension system. While nothing negative has as yet been decided on miner pensions, announcements of returning to the case and the pressure from various social and political groups are conducive to the emergence of uncertainty. This regards extending the retirement age and reducing, or even revoking, the current pension benefits with respect to certain groups in the mining sector. The fear (perhaps unjustified) of losing certain accrued rights may, in case of unfavourable course of events, lead to numerous retirements in a short period of time by people who have already acquired the so-called industry-specific rights, but would otherwise be willing to continue to work, putting their retirement off until a little later. These are especially valuable employees because of their knowledge and experience. Their value is high, both for the quality of work and for the process of training younger staff. Their sudden departure in a short period of time could disrupt the generational continuity, which is being rebuilt in the Company, and thus the mild gradual staff turnover.

#### 4.5.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with the (LW Bogdanka) Group

Such cooperation involves external entities providing outsourcing services to LW BOGDANKA, whereby it provides workers to perform mining and maintenance/refurbishment work on Saturdays, Sundays and holidays. Because that work requires that people with appropriate qualifications and experience be employed, the people employed by the entities referred to above are mainly employees who work at the Company from Monday to Friday on the basis of an employment contract concluded directly with the Company.

If the provision of work for LW BOGDANKA by the employees of LW BOGDANKA through third-party entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by the LW BOGDANKA Group.

**4.5.2.12 Key supplier risk**

The specific nature of the Group operations (both within the operation of LW BOGDANKA and Łęczyńska Energetyka, in relation to carrying out the planned investment) requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the companies. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Company may become dependent upon these entities.

The LW BOGDANKA Group, when signing agreements with suppliers, assesses possible threats for the contract performance and options for establishing cooperation with other suppliers. Furthermore, in order to secure the performance of "higher risk" contracts, the companies of the Group require that a performance bond is made.

**4.5.2.13 Risk of unfavourable/inappropriate contractual terms being concluded**

Due to the high degree of complexity of the agreements signed by the LW BOGDANKA Group (particularly those relating to the purchase of specialist equipment and technology), the companies are exposed to a risk of an agreement being concluded on unfavourable terms. This risk also occurs where a business partner has a very strong negotiating position (e.g. in the case of a contract for deliveries from the only manufacturer of a particular product). The Group is taking measures to minimise the probability of this risk occurring and its impact:

- rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;
- training in the logistics of concluding contracts and market analysis and training in negotiations and trading, particularly at the international level.

**8.2.2.14 Risk associated with related party transactions**

Within the LW BOGDANKA Group, mutual transactions between the Group companies (related undertakings) are concluded, which may be subject to inspection by tax authorities. The man subject of examining the transactions is whether they have been concluded on an arm's length basis or not.

According to the Group's assessment, all transactions within the Group, which LW BOGDANKA concludes with Łęczyńska Energetyka have been and are entered into exclusively on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Company and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

**4.5.3 Financial risk**

**4.5.3.1 Liquidity risk**

Important factors in the assessment of insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In the case of the Group, cash at hand as at 31 December 2012 amounted to PLN 120,551,000 current liquidity ratio – 1.14, and quick liquidity ratio – 0.99. In twelve months of 2012 net flows from operating activities generated by the LW BOGDANKA Group were by approx. 111% higher than in the analogous period in the previous year. Therefore, as at the day of submitting the Report, there is no risk of the Group's insolvency. To avoid any potential risks in future and to mitigate the risk related to the Group's liquidity, long- and short-term analyses and forecasts are prepared, allowing cash needs to be determined. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

**4.5.3.2 Insurance risk**

The Lubelski Węgiel BOGDANKA Group insures its business. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations. In this respect the Company holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish mining enterprises. The remaining Group operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property, above-ground property insurance and all-risks insurance of rail vehicles. Given the very nature of insurance agreements which cover widest-available and at the same time specified scopes of insurance, it is not possible to fully transfer the risk faced by the Group on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Group will prove sufficient for covering each and every loss or liability, which may exert an influence on its financial standing, results of its operations and the generated cash flow.

### 4.5.4 Risks associated with environmental protection

#### 4.5.4.1 Risk associated with reclamation and mining damage

LW BOGDANKA is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be more strict. Any possible tightening of the standards in this respect may result in higher costs for the Company.

As the mining area of the Company will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (purchase of developed real properties). Therefore, in addition to the existing recovery work, the Company will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results of the Company.

The effects of extraction are monitored on an ongoing basis, including by way of gradual hydrographic works and prophylactic protection on the facilities within the boundaries of inflows.

#### 4.5.4.2 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the companies of the Group must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements - Best Available Techniques), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, environment protection standards are applied in LW BOGDANKA, as well as in Łęczyńska Energetyka. As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER Construction Ceramics Plant) and a permit for operating a mining waste utilisation facility. Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012. Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of the environment which may apply to LW BOGDANKA and to Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the companies' operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the Group's financial results. In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2012

LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the Company's operations in this respect have been adopted to the new regulatory requirements as from 1 May 2012.

In order to mitigate the risk related with the change in regulations with respect to the environment protection, the Company monitors on an ongoing basis, and adjusts its operations accordingly, within the prescribed time limits.

#### 4.5.4.3 Risk associated with management of waste generated after extension of the mining area

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased (in 2012 at the level of 4.74 million tonnes per year; the forecast for the period after 2012 in connection with a further increase in extraction is that the amount of waste in 2014 will range between 5.2 and 5.7 million tonnes). As of 31 December 2012, approx. 54% of extraction waste is recycled, whereas the remaining part is kept or stored at the waste yard on the mine's premises (the waste is recycled by the mine or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company (on the basis of a building permit) commenced works connected with increasing the height of the existing yard to 250 MASL, and undertook measures aimed at acquiring the adjacent areas in order to further extend the facility (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the mine will be forced to purchase those plots. Applications were submitted requesting that relevant amendments be made to the local spatial development plan. Considerable advancement has been made in this respect. Following social consultations, local community expressed its approval for the investment. Moreover, talks with the plot owners were already held, and preliminary consents for the purchase of plots were obtained. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the financial result.

In order to limit the risk related to acquiring waste utilisation sites, works connected with increasing the height of the existing mining waste utilisation facility were commenced. Such course of action will make it possible, without undue haste, to continue the work on acquiring new land to execute the next phases of extension of the yard and handle any formal and legal issues connected with this project.

#### 4.5.4.4 Investment risks associated with protected areas

The mine is located in the vicinity of protected areas (a national park, landscape parks, protected landscape areas, ecological channel and two areas subject to Nature 2000 network regulations located partially on the area of the mining land and three others in close vicinity of the mining land). Those environmental conditions do not pose an obstacle for the activity in its present scope. Nevertheless, all the planned investment activities must be analysed from the perspective of their potential negative impact on protected areas.

According to the law, business activity which has negative impact on the environment of the protected areas (and in their vicinity) may be significantly limited. During the proceedings aiming to issue investment decisions, a competent administrative authority examines the environmental impact of the investment by analysing the description, characteristics, technical and project data of a given investment. Should the authority find it necessary, it may impose certain obligations on the investor in order to eliminate the negative impact. Therefore, if a planned investment is located in the zone of impact on protected areas, the investor must take into account the possibility that it may be encumbered with certain obligations, which in practice usually means the necessity of additional investment expenditures.

There is a risk that in the case of investment activities, certain obligations may be imposed or the requirements concerning the limitation of the negative environmental impact may be stricter (e.g. an obligation to introduce certain technological solutions with respect to water and sewage management in connection with the impact on the ground water environment and the risk of negative changes in the ground water levels). These investment restrictions may require higher investment costs and therefore may affect the financial result.

### 4.5.5 Risk associated with proceedings and legal environment

#### 4.5.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Company. Regular amendments to tax regulations and rigorous curative provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Any tax rulings issued following the Initial Public Offering of LW BOGDANKA may tarnish the Group's image and goodwill. Tax returns submitted by the Group companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

In order to limit this type of risk the Group applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the individual companies' operations and financial performance.

#### 4.5.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA

In accordance with the Company's strategy, the value of underground workings and the infrastructure located in these workings have not been included in the LW BOGDANKA's property tax returns for tax assessment purposes.

Fiscal proceedings covering the period between 2003 and 2007 are currently pending in order to determine the amount of the Company's real property tax liabilities. The proceedings were instigated by the Heads of the communes of Puchaczów, Cyców and Ludwin. This year, the Head of the Puchaczów Commune additionally instigated proceedings to determine the amount of property tax for 2011. As regards administrative decisions already issued with regard to the period between 2003 and 2007 which specify the amount of property tax, the authorities of first instance determined that property tax also applies to underground workings and the infrastructure located in these workings. Therefore, the Company faces the risk of its position on the scope of assets subject to property tax being questioned by tax authorities and administrative courts. However, as regards the possible negative financial consequences for the Company, it seems that the risk has been reduced significantly as a result of the Polish Constitutional Tribunal's opinion expressed in its judgment of 13 September 2011 in case No. P 33/09. In its judgment, the Constitutional Tribunal found that under the applicable provisions of law, imposing real property tax on the value of underground workings is, from the constitutional perspective, unacceptable. Underground workings are not building facilities (building equipment) within the meaning of the Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

However, the Constitutional Tribunal did not rule out the possibility of charging real property tax on structures and building equipment located in the underground workings, but the Tribunal reserved that real property tax on such structures or equipment could only be imposed if certain conditions were met, i.e. that in accordance with the Polish Building Law the structures could be considered:

1) only the structures listed explicitly in Article 3.3 of the Polish Building Law or any other provisions thereof or any schedule thereto, comprising, together with installations and equipment, a building structure referred to in Article 3.1.b of the Polish Building Law, i.e. provided that such structures constitute a complete technical and usable facility,

2) only the technical facilities specified in Article 3.9 of the Polish Building Law or any other provisions thereof or any schedule thereto, which, if the said facilities are not listed explicitly, requires a proof that owing to those facilities the building structure may be used in accordance with its designation, excluding, however: (1) building facilities related to building structures in the form of a structure within the meaning of the Polish Building Law, which cannot be classified as structures within the meaning of the Local Taxes and Fees Act, and (2) building facilities related to building structures in the form of small architectural structures, with a proviso that within the meaning of the Polish Building Law installations do not constitute building facilities;

bearing in mind that the classification of particular facilities and equipment may also be based on other statutory provisions supplementing the Polish Building Law, modifying it or making it precise.

In addition, the Constitutional Tribunal paid attention to the fact that in each tax case regarding infrastructure located in underground workings, it is necessary to precisely determine which of the facilities and equipment located in such workings can be classified as structures within the meaning of the Local Taxes and Charges Act, as this would eliminate the risk of the related decisions being made on the basis of questionable generalisations.

The Constitutional Tribunal explained that even if underground workings were classified, by way of analogy, as building facilities (more specifically, structures) within the meaning of the Polish Building Law (such building facilities would then fall within the scope of the definition, emphasised by the Constitutional Tribunal, of an underground working in the technical sense of the term), then because the term "underground working" had not been expressly listed in the Polish Building Law as the name of a structure, underground workings were not structures within the meaning of the Local Taxes and Charges Act.

Moreover, in its judgment, the Constitutional Tribunal argued that if the classification of the different facilities and equipment located in underground workings to the different names of structures specified in the Polish Building Law was not successful, it would be necessary to determine whether or not the facilities and equipment in question could be classified as building equipment within the meaning of the Polish Building Law, and which had been, at the same time, classified as structures within the meaning of the Local Taxes and Charges Act. In identifying the building facility to which a particular item of technical equipment is connected and in determining whether or not that item allows that facility to be used for the purpose for which it is intended, there are two circumstances to be taken into account. Firstly, if an underground working considered space (an underground working in the physical sense) is not a building facility within the meaning of the Polish Building Law, and if an underground working considered technical infrastructure (an underground working in the technical sense) is not a building facility at least within the meaning of the Local Taxes and Charges Act, any attempt to classify any equipment as building equipment by proving that the equipment is essential for the working to operate would be illegitimate. Secondly, at least in some cases, there may be doubts as to the legitimacy of attempts to identify a relationship between the technical equipment located in an underground working and surface buildings. The connection of an item of building equipment with a building facility in such a way that the item allows the facility to be used for the purpose for which it is intended should not be interpreted so broadly as to include the possibility for that facility to perform economic functions resulting from the facility belonging to an enterprise, which is a mining enterprise in the case in question. Note, for example, that equipment intended for supplying fresh air (ventubes), pipelines for supplying and removing water, or panel lining, are prerequisites for an underground working to operate and, therefore, economically justify the existence of surface building facilities as part of a given mining enterprise. This, however, does not mean that such equipment allows such surface buildings to be used in accordance with their intended purpose. However, the question whether or not such equipment can be considered building equipment connected with surface buildings remains open.

The above opinion expressed by the Constitutional Tribunal means that real property tax may be charged on the value of structures and building equipment that meet the conditions specified in the Constitutional Tribunal's judgment described above if, of course, such structures and building equipment are located in the Company's underground workings. It must be emphasised that following the Constitutional Tribunal's judgment, the Company has undertaken preparatory measures aimed at determining whether or not the underground workings operated by the Company contain structures and building equipment that meet the criteria, as specified by the Constitutional Tribunal, for such structures and building equipment to be subject to real property tax. Based on a preliminary examination of the types of infrastructure items located in the underground workings and a preliminary evaluation of their value, the Company estimated the amount of a provision as at 31 December 2012.

#### 4.5.5.3 Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as fixed assets or directly as operating costs and the point when such costs are incurred. The pits comprising a fixed underground mine infrastructure are classified by the Group as fixed assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred – cost pits. They include the following pits.

(a) preparatory pits for liquidation – when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited panel. The classification of this group of pits for liquidation is determined at the stage of planning the method of preparing the deposits for exploitation;

(b) special pits of auxiliary nature - created from pits localised on exploitation fields (blasting niches, drill niches, section chambers ). They are liquidated with other movement pits for which the operation has already been performed;

(c) selector pits – they are used for deposit extraction (panels and cross-cuts). Those pits are liquidated when the extraction in the field of the panel is completed and when they are no longer necessary for operation of the remaining parts of the mine;

(d) pits and examination holes – corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

Some of the cost pits referred to above were performed earlier than 1 year ago. In the light of the current tax laws, one cannot exclude a possibility of other qualification of this type of costs for the purposes of corporate persons income tax than the one performed by the Group, which could potentially mean decreasing the cost base for tax purposes in past and current settlements of the income tax and a potential payment of additional amounts of the tax. The mining companies have made an attempt to clarify this issue – they suggest changes and clarification of the classification rules concerning this aspect of Fixed Assets Classification. http://www.lw.com.pl

#### 4.5.5.4 Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Laws can be changed to companies' advantage, but changes can also have adverse consequences. Changing laws and varying interpretations, particularly with regard to tax law, geological and mining law, the law governing business activity, labour and social security law and the law relating to securities, could have adverse consequences for the companies of the Group. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the companies of the Group or if the Mining Law introduces new requirements to be imposed on the Parent Undertaking LW BOGDANKA, it could lead to a deterioration of its financial situation and as a result negatively affect the Group's results and development prospects.

#### 4.5.5.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (uniform text, Dz. U. 09.185.1439, uniform text). For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the companies' activity from the perspective of disclosure requirements.

#### 4.5.5.6 Summary – integrated system of enterprise risk management

The LW BOGDANKA Group consists of a Parent Undertaking – LW Bogdanka S.A. and a subsidiary company – Łęczyńska Energetyka Sp. z o.o. The Parent Undertaking generates 99.3% share of Group's revenue and 98.80% of net profit (according to data for 2012). Therefore, it was assumed that the key risks in Group's activities are in fact the key risks of the Parent Undertaking. The only risk at the Group's level which could influence the Group's activities to a considerable extent, and is associated with Łęczyńska Energetyka, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

# 5 OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2012

## 5.1 Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company by the management and supervision personnel of LW BOGDANKA S.A.

The table below presents the number and par value of shares of LW BOGDANKA S.A. as well as shares in related undertakings of LW BOGDANKA S.A. held by the management and supervision personnel of LW BOGDANKA S.A., as of the date of submitting the Report and as of the date of publishing the previous interim report:

Table 21 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management the Supervisory Boards of LW BOGDANKA S.A.*

| The Management Board | | | | | |
|---|---|---|---|---|---|
| | **Number of Company shares as at 21 March 2013** | **Par value of shares (PLN)** | **Number of Company shares as at 7 November 2012** | **Par value of shares (PLN)** | **Number of shares in Łęczyńska Energetyka Sp. z o.o. as at 21 March 2013** |
| Mirosław Taras** | not applicable | | not applicable | | not applicable |
| Krystyna Borkowska | 1,299 | 6,495 | 1,299 | 6,495 | 0 |
| Zbigniew Stopa | 5,703 | 28,515 | 5,703 | 28,515 | 0 |
| Waldemar Bernaciak | 2,162 | 10,810 | 2,162 | 10,810 | 0 |
| Lech Tor | 1,124 | 5,620 | 1,124 | 5,620 | 0 |
| Roger de Bazelaire*** | 0 | 0 | not applicable | | 0 |
| Krzysztof Szlaga*** | 0 | 0 | not applicable | | 0 |
| **Supervisory Board until the date of the Annual General Shareholders Meeting (27 April 2012)** | | | | | |
| **Name and** | **Number of** | **Par value of** | **Number of** | **Par value of** | **Number of** |

| surname | Company shares as at 21 March 2013 | shares (PLN) | Company shares as at 27 April 2012 | shares (PLN) | shares in Łęczyńska Energetyka Sp. z o.o. as at 21 March 2013 |
|---|---|---|---|---|---|
| Eryk Karski | not applicable | | 0 | 0 | not applicable |
| Stefan Kawalec | | | 0 | 0 | |
| Andrzej Lulek | | | 0 | 0 | |
| Ewa Pawluczuk | | | 0 | 0 | |
| Jadwiga Kalinowska | | | 1,024 | 5,120 | |
| Adam Partyka | | | 1,024 | 5,120 | |
| **Supervisory Board appointed at the Annual General Shareholders Meeting (27 April 2012)****** | | | | | |
| | **Number of Company shares as at 21 March 2013** | **Par value of shares (PLN)** | **Number of Company shares as at 7 November 2012** | **Par value of shares (PLN)** | **Number of shares in Łęczyńska Energetyka Sp. z o.o. as at 21 March 2013** |
| Witold Daniłowicz | 0 | 0 | 0 | 0 | 0 |
| Eryk Karski | 0 | 0 | 0 | 0 | 0 |
| Stefan Kawalec | 0 | 0 | 0 | 0 | 0 |
| Robert Bednarski | 0 | 0 | 0 | 0 | 0 |
| Dariusz Formela | 0 | 0 | 0 | 0 | 0 |
| Tomasz Mosiek | 0 | 0 | 0 | 0 | 0 |

* According to the statements of the members of the Company's Management Board and Supervisory Board
** The dismissal of Mirosław Taras from the position of the President of the Management Board of Lubelski Węgiel BOGDANKA S.A. is described in Article 11.8.1.2 hereof
*** Changes in the composition of the Management Board are described in item 11.8.1.2
**** Changes in the composition of the Supervisory Board were described in item 11.8.2.1 of this Report

### 5.2 Information on agreements known to LW BOGDANKA S.A. and the subsidiary (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the LW BOGDANKA Group has no information on agreements, as a result of which changes may occur in the future in the proportion of shares held by the existing shareholders.

### 5.3 Acquisition of the Company's own shares

In 2012 the companies of the LW BOGDANKA Group did not acquire any of their own shares.

## 6. PERSONNEL INFORMATION

### 6.1. Employment at the Group

Table 22 Employment at the Lubelski Węgiel BOGDANKA Group

| Item | | Employment at the end of year | | | | | Structure | Change 2012/2011 |
|---|---|---|---|---|---|---|---|---|
| | | 2008 | 2009 | 2010 | 2011 | 2012 | % | % |
| | Total | | | | | | | |
| **Group total** | | **3,792** | **4016** | **4087** | **4303** | **4705** | **100** | **9.34** |
| including: | Lubelski Węgiel Bogdanka S.A. | 3,667 | 3,885 | 3,968 | 4,184 | 4587 | 97.49 | 9.63 |
| | Łęczyńska Energetyka sp. z o.o. | 125 | 131 | 119 | 119 | 118 | 2.51 | -0.84 |
| **Full-time employees** | | | | | | | | |
| **Group total** | | **548** | **589** | **589** | **640** | **665** | **14.13** | **3.91** |
| including: | Lubelski Węgiel Bogdanka S.A. | 511 | 549 | 564 | 596 | 621 | 13.20 | 4.19 |
| | Łęczyńska Energetyka sp. z o.o. | 37 | 40 | 43 | 44 | 44 | 0.93 | - |
| **Blue-collar workers** | | | | | | | | |
| **Group total** | | **3,244** | **3,427** | **3,480** | **3,663** | **4,040** | **85.87** | **10.29** |
| including: | Lubelski Węgiel Bogdanka S.A. | 3,156 | 3,336 | 3,404 | 3,588 | 3.966 | 84.30 | 10.54 |
| | Łęczyńska Energetyka sp. z o.o. | 88 | 91 | 76 | 75 | 74 | 1.57 | -1.33 |
| **Underground staff** | | | | | | | | |
| Lubelski Węgiel Bogdanka S.A. | | **2,643** | **2,838** | **2,895** | **3,010** | **3,343** | **71.05** | **11.06** |

2012 brought a 9.34% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent Undertaking was caused by new hirings in connection with the pursuance of the investment programme.

In 2012 the personnel employed at the Parent Undertaking accounted for 97.49% of total employment in the Group. Workers accounted for 85.87% of all employees.

In comparison with 2011 the number of underground staff went up by 333 workers, i.e. 11.06%. These employees constituted the main group employed in the Group, i.e. 71.05 %.

### 6.2. Salaries and wages in the Group

The average monthly salary in the Group (excluding profit-based compensation) stood at PLN **6,884.45** and was 6.76% higher than the average remuneration in 2011.

The salaries and wages in the Group are one of the highest in the hard coal mining sector and in the Lublin region.

Table 23 Salaries and wages in the LW BOGDANKA Group

<table>
<tr><th colspan="2" rowspan="2">Item</th><th colspan="3">Average salary (PLN)*</th><th>Change (%)</th></tr>
<tr><th>2010</th><th>2011</th><th>2012</th><th>2012/2011</th></tr>
<tr><td colspan="6">Total staff</td></tr>
<tr><td colspan="2">Total</td><td>6,277.90</td><td>6,448.27</td><td>6,884.45</td><td>6.76</td></tr>
<tr><td rowspan="2">including:</td><td>Lubelski Węgiel BOGDANKA S.A.</td><td>6,366.77</td><td>6,529.89</td><td>6,967.99</td><td>6.71</td></tr>
<tr><td>Łęczyńska Energetyka sp. z o.o.</td><td>3,403.24</td><td>3,662.38</td><td>3,755.31</td><td>2.54</td></tr>
<tr><td colspan="6">Full-time employees</td></tr>
<tr><td colspan="2">Total</td><td>8,024.59</td><td>8,483.97</td><td>9,158.33</td><td>7.95</td></tr>
<tr><td rowspan="2">including:</td><td>Lubelski Węgiel BOGDANKA S.A.</td><td>8,257.03</td><td>8,727.75</td><td>9,407.97</td><td>7.79</td></tr>
<tr><td>Łęczyńska Energetyka sp. z o.o.</td><td>4,704.91</td><td>5,208.11</td><td>5,638.35</td><td>8.26</td></tr>
<tr><td colspan="6">Blue-collar workers</td></tr>
<tr><td colspan="2">Total</td><td>5,975.18</td><td>6,090.47</td><td>6,506.34</td><td>6.82</td></tr>
<tr><td rowspan="2">including:</td><td>Lubelski Węgiel BOGDANKA S.A.</td><td>6,053.13</td><td>6,162.53</td><td>6,581.66</td><td>6.80</td></tr>
<tr><td>Łęczyńska Energetyka sp. z o.o.</td><td>2,784.15</td><td>2,778.73</td><td>2,683.82</td><td>-0.35,</td></tr>
</table>

* payroll fund charged to the Company's costs

Under an agreement on the payroll policy concluded between the trade unions and the Management Board of Lubelski Węgiel BOGDANKA S.A., the growth rate of average monthly remuneration in 2012 was set at 5.50% compared to 2011. Exceeding the assumed growth rate of remuneration was mainly the result of failure to achieve the planned headcount at the Company and extra payments from the payroll fund due to changes in the Management Board of the Company.

As for the increase in average monthly remuneration at Łęczyńska Energetyka, it was a result of several factors. In the case of full-time employees, the increase in remuneration was caused by increasing the remuneration of the Management Board of the Company under Resolution No. 16/2011 of 27 May 2011 adopted by the Annual Shareholders Meeting amending the rules of remuneration of the Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka. Another factor was a decision of the Supervisory Board, in the form of Resolution No. 11/2012 of 18 July 2012, on creating two new departments in the Company, i.e. Audit and Internal Control Department and Enterprise Risk Management Department at Łęczyńska Energetyka Sp. z o.o. in Bogdanka. Those two factors caused the growth rate of remuneration to be higher than that in previous years.

As for the remuneration of workers, its reduction was the result of continuing work on Saturdays, Sundays and statutory holidays throughout 2012 at an external entity (Korporacja Gwarecka), and therefore the payroll fund was lower by the remunerations paid out in previous years for that statutory holiday work.

The level of remuneration paid out at LW BOGDANKA GROUP did not adversely affect its profitability or management efficiency, nor limit its investment operations.

LW BOGDANKA S.A.'s Management Board exercises ongoing supervision over the share of payroll costs in the total cost of coal production. In the year in question the relationship between the pay increase rate, pay for performance and work efficiency rate is deemed correct.

### 6.3 The value of remuneration, bonuses or benefits, including those granted under incentive or bonus schemes based on LW BOGDANKA S.A.'s capital, paid out, due or potentially due to the Management Board and Supervisory Board Members

Rules of remuneration of the Management Board members of LW BOGDANKA 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.

Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual bonus in the maximum amount of 60% of their basic annual remuneration for the year preceding the year in which the award was granted.

The total gross remuneration paid to the Members of the Management Board in 2012 amounted to PLN 2,863,406.38. Within their duties at the Company, Members of the Management Board were given remuneration only in respect of employment agreements.

- Mirosław Taras - PLN 1,092,892.29
- Zbigniew Stopa - PLN 549,306.01
- Krystyna Borkowska - PLN 546,788.98
- Waldemar Bernaciak - PLN 550,799.45
- Lech Tor - PLN 123,619.65

The total gross remuneration paid to the Company's proxies in 2012 amounted to PLN 1,091,028.22. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

**Supervisory Board**

Members of the Supervisory Board of LW BOGDANKA S.A. shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. 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.

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 and shall not exceed the amount of the remuneration of a Management Board member determined in accordance with the rules of remuneration for Management Board members adopted by the General Shareholders Meeting. 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.

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2012 amounted to PLN 604,905.69, including:

- Eryk Karski - PLN 104,264.84
- Stefan Kawalec - PLN 90,700.00
- Witold Daniłowicz - PLN 89,943.01

- Robert Bednarski - PLN 65,508.17
- Raimondo Eggink - PLN 65,508.17
- Tomasz Mosiek - PLN 65,508.17
- Dariusz Formela - PLN 53,273.33
- Andrzej Lulek - PLN 15,600.00
- Jadwiga Kalinowska - PLN 19,500.00
- Ewa Pawluczuk - PLN 19,500.00
- Adam Partyka - PLN 15,600.00

In 2012 two Members of the Company's Management Board received remuneration for performing duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

- Zbigniew Stopa PLN 45,240
- Mirosław Taras PLN 35,810

Other Members of the Management Board and the Supervisory Board do not perform any duties in the subsidiaries of LW BOGDANKA S.A.

In 2012 there were no incentive or bonus programmes for the Management Board of LW BOGDANKA S.A. based on the equity.

### 6.4 All agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka with the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board which were in force in 2012, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration. These provisions also apply to agreements concluded with members of the Management Board appointed for the 8th term of office.

Furthermore, the agreements concluded with Mr Mirosław Taras, Mr Zbigniew Stopa, Mr Waldemar Bernaciak and Ms Krystyna Borkowska which were in force in 2012 contain a provision under which, in case of employment contract termination due to the dismissal of the Employee from the position of the Employer's Management Board Member following the acquisition and in connection with the acquisition of the Employer's shares pursuant to the tender offer to subscribe for the Employer's shares as provided for in Article 73 or 74 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Dz. U. 2009 No. 185, item 1439), with regard to which the Employer's Management Board communicated to Polish Financial Supervision Authority and announced to the public under Article 80 of the said Act a negative position concerning any of the components specified in Article 80.2 of the Act, the Employer shall pay for the benefit of the Employee a severance pay amounting to 24 months' gross base salary. Agreements concluded with members of the Management Board appointed for the 8th term of office do not contain the above-mentioned provisions.

### 6.5 Information on a control system of employee share schemes at the Group

In 2012, no control system of employee share schemes was in place at the LW BOGDANKA Group.

## 7. ENVIRONMENTAL PROTECTION

### 7.1. Environmental activities of LW BOGDANKA S.A.

#### 7.1.1 Location of the Company

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.

In the north-west, the Polesie Protected Landscape Area is located, and in the south-east, the Chełm Protected Landscape Area, which changes into the "Dolina Świnki" (Świnka River Valley) wildlife corridor, which stretches parallel to the west border of the mining area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-ecological actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001.

#### 7.1.2 Natural environment protection measures

**Air protection**

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Construction Ceramics Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Production Branch has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and decision No. 2/2012 of 31 January 2012. In 2012, the EkoKLINKIER Construction Ceramics Production Branch emitted 7,100 Mg of dust and gas without violating the permit. For air emissions from the Construction Ceramics Plant environmental charges were charged and paid at the end of each half-year.

The Construction Ceramics Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of $CO_2$ per annum in the 2nd trading period of 2008-2012. A report on $CO_2$ emissions after verification by an authorised company was sent to the National System Administrator – Institute of Environmental Protection. Time limit stipulated by the law — the end of the 1st quarter after the end of the trading year.

The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

#### 7.1.3 Water and sewage management

Water and sewage management in terms of mine water involves:

- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),
- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),

- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2012, the average annual water supply to workings amounted to 6,200,446 $m^3$, average total mineralisation 2,243.20 $mg/dm^3$, $Cl + SO_4$ ion content – 1,000 $mg/dm^3$. The $Cl + SO_4$ ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with GIG [Central Mining Institute] classification) – as was the case in previous years.

The quantity of mine water used in 2012 for industrial purposes underground and on the surface amounted to a total of approx. 13,435 $m^3$/day, out of which approx. 12,163 $m^3$/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the Mechanical Coal Processing Plant in the quantity of 1,235 $m^3$/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 37 $m^3$/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2012, as was the case in previous years, 35 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.

In 2012, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute, and revealed the following concentrations: Radium $^{226}$ in the range of < 0.48 – 0.03 $KBq/m^3$, Radium $^{228}$ < 0.368 - 0.017 $KBq/m^3$. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

The Company holds an administrative decision – water permit for special water use in accordance with its operations. It is decision no. ŚiR.III.6811/91/07 of 31 December 2007, valid until 31 December 2017, concerning:

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:

   Qdavg = 20,000 $m^3$/d, Qmax = 22,000 $m^3$/d,

   Qhmax = 917 $m^3$/h, until 31 December 2010, and

   Qdavg = 26,700 $m^3$/d, Qmax = 32 000 $m^3$/d,

   Qhmax = 1,400 $m^3$/h, from 1 January 2011 until 31 December 2017.

b) discharge of unused mine water from the sedimentation tank through the discharge ditch into the "Żelazny" ditch, which is a tributary of the Świnka River.

In 2012, 15,716 $m^3$/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 909.25 $mg/dm^3$).

Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.

Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:

- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.

Pursuant to legal requirements, twice a year – after the end of each half-year, LW BOGDANKA calculated and paid a charge for Cl + $SO_4$ load in unused mine water discharged into the receiving water body – the Świnka River.

In 2012, in compliance with the water permit, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

### 7.1.4 Surface protection

In 2012, the impact of mining on the surface – as to date – manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:

- approx. 2.50 m in the area of the former ZRH (Agriculture and Stock Farm) in Puchaczów, and in the area of such villages as Kobyłki, Nadrybie Dwór, Nadrybie Ukazowe, Dratów (east of buildings),

- approx. 2.00 m in the area of the village of Uciekajka and western part of the village of Kaniwola,

- approx. 2.00 m east of the village of Dratów and east of Puchaczów (near the course of the side-track),

- approx. 0.30 m south of the mining area (in the area of 7/VII ploughing panel exploitation).

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining two seams – maximum soil settlement remains at the same level and amounts to approx. 5.00 m in the central part of the settlement basin.

Damage to buildings in 2012 – as to date – were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 16 buildings (in 8 residential and 8 farm ones).

In 2012, the buy-out of the developed properties that were affected most with the negative effects of mining exploitation, which started in 2010, was continued. In order to repair damage caused by mining which could not be removed, further two farms, including buildings, were bought in 2012 (one in Nadrybie Ukazowe village and one in Kobyłki village).

As part of mining damage repair, dressing of damaged asphalt roads and dirt roads was carried out (in sections of commune and district roads) within a total distance of a 4.72 km.

Damage to farmland in 2012 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permanent permeation becoming significantly larger in the following regions:

- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I, 8/I and 7/I in seam 382 are mined,

- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,

- the area of the villages of Uciekajka and Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.

- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV, 3/IV and 4/IV in seam 385 are mined.

The affected land owners in this area received a suitable compensation amounting to PLN 1,317,700.

The costs of removing damage caused by mining in 2012 amounted to a total of PLN 5,149,300. In 2012, the total expenditure in connection with removing damage caused by mining slightly decreased in relation to the expenditure incurred in 2011, which amounted to PLN 5,721,200 (this is largely a consequence of partial purchase of the flooded farms.)

In 2012, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki and Kaniwola were continued.

**Reclamation**

In 2012, Lubelski Węgiel BOGDANKA S.A. did not conduct land reclamation works in post-industrial areas, however it regularly nurtured the greenery, and took care of the facility used as the mining waste dump, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2013 and in the years to follow, it is forecast that another developed farming plots in the Puchaczów and Ludwin communes will be bought back, due to irreparable to-date and forecast further damages caused by mining exploitation processes (i.e. permanent continuous undercuts). In 2013 about 6 developed real properties are planned to be purchased (applications in this regard were submitted in 2012).

As a part of removing mining damage, in 2013 it is planned:

- reconstruction of the Jaszczów-Bogdanka side-track,
- repair of the Stefanów-Nadrybie district asphalt road,
- replacement of several overhead power lines with cable power lines, and replacement of some power lines with isolated networks.

Due to further exploitation, and thus ground settling (about 2.0m - exploitation of panels No. 1/IV/385, 2/IV/385, 3/IV/385 and 4/IV/385), local floodlands preventing gravitational outflow of the mining water. After performance of hydro works in previous years, this area is being monitored regularly in order to prevent possible obstructions in outflow of this water to the Świnka river.

**Waste management**

In 2012, the total mining waste amounted to 4,742,458 tonnes. Approximately 54% of the waste was recovered and reused.

Waste recovery for industrial purposes in the installation of EkoKLINKIER Construction Ceramics production amounted to a total of 19,566 tonnes of waste.

Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 2,534,905 tonnes.

Mining waste is mostly (96.6% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.

Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).

The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it in the facility used as the mining waste dump – in accordance with the Act on waste (Dz. U. [Official Journal] No. 62, item 628, 2001, as amended).

Table 24 Waste

| Item | 2010 | 2011 | 2012 |
|---|---|---|---|
| Mining waste (Mg) | 3,288,948 | 4,050,085 | 4,742,458 |
| Deposited waste (Mg) | 1,427,329* | 1,957,305** | 2,395,292*** |
| Reused waste (Mg) | 2,366,927 | 2,092,780 | 2,554,471 |

*/including: 541,655 Mg stored from 2009 and 885,674 Mg stored from current production
**/including 1,750,000 Mg deposited on the area of the facility, 207,305 Mg stored
***/including: 207,305 Mg stored from 2011 and 2,187,987 Mg stored from current production

In 2012, the Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3).

Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.

In 2012, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.

To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.

LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

**Environmental protection sanctions and charges to which the Company is exposed**

Mining activity is associated with operating and environmental charges, and a number of costs connected with post-mining waste management, post-industrial land remediation, environmental monitoring, and preparation of certified reports and documentation necessary for proper operation of the plant.

Table 25 Cost of LW BOGDANKA S.A. related to environmental protection [in PLN '000]

| No. | Type of cost | | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| 1. | Protection costs (remediation, monitoring) | | 808.93 | 1,005.64 | 803.39 |
| 2. | Post-mining waste management and post-industrial waste treatment | | 33,005.58 | 30,174.42 | 40,459.02 |
| 3. | Cost of certified reports, opinions, documentation, designs, etc. | | 52.20 | 122.4 | 200.05 |
| 4. | Environmental charges, including: | | 382.06 | 391.08 | 408.08 |
| | - emissions of gas and dust from means of transport, Construction Ceramics Plant and climatic equipment | | 162.78 | 179.83 | 168.09 |
| | - waste [1] | | - | - | - |
| | - discharge of sewage | | 219.28 | 211.25 | 239.99 |
| **5.** | **Total costs** | | **34,248.77** | **31,693.54** | **41,870.54** |

[1] until 1 May 2012 storage of post-mining waste is not subject to charge (the Mining Waste Act)

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2012.

Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge.

The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 26 Exploitation charge and mining use charge at LW BOGDANKA S.A. [in PLN '000]

| No. | Type of charge | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| 1 | Exploitation | 10,075.26 | 10,492.70 | 14,181,405 |
| 2 | Mining operations | - | - | - |

### 7.2 Environmental activities by Łęczyńska Energetyka Sp. z o.o.

a) Air protection

In 2012, Łęczyńska Energetyka operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass),
- in Zawadów (power 0.435 MW, coal and waste wood),
- boiler house Pasternik in Łęczna (power 2,06 MW, coal, a reserve boiler house).

With respect to air protection, the subsidiary holds the following decisions:

- Decision No. PZ 13/2007 issued by the Lublin Province Governor ref. No. ŚR.V.6618/8-10/2007 of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.
- Decision No. RŚ.V.MJ.7691/15/09 of 20 December 2012 issued by the Lublin Marshal's Office in Lublin, amending Decision No. BAO 7644/6/1/2006 of 31 March 2006 issued per procura Łęczna County Governor, as amended by Decision No. BAO 7644/6/2/2006 of 28 June 2006 issued per procura Łęczna County Governor and Decision No. RŚ.V.PS.7691/15/09 of 17 April 2009 issued by the Lublin Marshal's Office in Lublin, permitting the Company to take part in the European Community's emission trading scheme, valid until 30 March 2016.

b) Water and sewage management

Currently the Company holds the aquatic legal survey permits:

- Decision No. BAO.6341.42.8.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Nadrybie, valid until 30 November 2032
- Decision No. BAO.6341.37.3.2012 of 29 October 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Stefanów, valid until 30 September 2032
- Decision No. BAO.6341.42.9.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Bogdanka field, valid until 30 November 2022
- Decision No. BAO.6341.42.10.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Nadrybie and Stefanów Fields, valid until 30 November 2022
- and the decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an

integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.

Currently, the subsidiary runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two liquid waste treatment plants: a mechanical / biological one in Bogdanka with the capacity of 700 m3/24 hours, and a mechanical / biological one (Bioblok) in Nadrybie with the capacity of 400 m3/24 hours.

c) Waste management

The Company conducts waste management in accordance with the following decisions:

- a decision issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/20/08-7 valid until 30 June 2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna and Zawadów,
- decision No. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007 - an integrated permit for the "Heat–Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka", which covers the waste that is generated in connection with the heat-generating plant's activities changed into the decision No. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Lublin Marshal's Office in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.
- Decision No. BAO.6233.7.4.2012 of 13 April 2012 issued by the Poviat Starosty [county authorities] in Łęczna to recover waste other than hazardous waste, valid until 30 June 2020, amending Decision No. BAO 6140-24/10-6 of 17 August 2010 issued by the Poviat Starosty [county authorities] in Łęczna – recovery of waste in burning installation – Zawadów, valid until 30 June 2020

The waste generated is as follows:

a. slags, furnace ashes, and dusts from the boiler house,
b. ash and slag mixtures from liquid waste discharge of combustion waste,
c. sediments from the liquid waste treatment plant in Bogdanka and Nadrybie,
d. screenings from the waste treatment plant,
e. used oil,
f. other solvents and solvent mixtures,
g. waste printer toner,
h. fluorescent and mercury lamps, monitors,
i. chemical reagent packaging,
j. non-seggregable municipal waste, plastic packaging
k. used cleaning materials and sorbent,
l. steel and cast iron scrap,
m. non ferrous metals scrap,

n. insulation materials other than mentioned above (mineral wool, glass wool, tar board),

o. concrete waste and concrete rubble from demolished structures and repairs,

p. brick rubble,

q. glass,

r. packaging containing residues of or contaminated by dangerous substances,

s. used electronic devices (computers etc.).

The subsidiary hands over the waste that it generates to business entities that hold the relevant waste management decisions issued by appropriate local government authorities pursuant to the Waste Act of 27 April 2001 and a new act of 14 December 2012.

d) Financial charges for the economic use of the environment

Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years are presented in the table below.

Table 27 Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment

| Item [PLN] | 2010 | 2011 | 2012 |
|---|---|---|---|
| Emissions of boiler house pollutions: | | | |
| in Bogdanka | 389,045.09 | 222,303.82 | 128,893.33 |
| in Łęczna | - | - | - |
| in Zawadów | 1,736.80 | 1,193.25 | 1,344.30 |
| in Ostrów Lubelski | 12,995.36 | 7,237.19 | - |
| in Milejów | 34,879.09 | - | - |
| For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów | 27,509.00 | 33,629.00 | 61,735.75 |
| Total | 466,165.34 | 264,363.26 | 191,973.38 |

In the financial year 2012 the aggregate charge for business use of the environment was lower than in previous years, mostly due to the fact that 2012 was the first year when the exhaust gas desulphurisation installation was put to use.
Additionally, the subsidiary decommissioned the boiler house in Ostrów Lubelski.
In 2010-2012 no fines were imposed on the subsidiary for exceeding the prescribed norms.

The volume of $CO_2$ emissions stood at 50 597 Mg, which involved exceeding the $CO_2$ emissions as compared to the allocated limit of 315 Mg $CO_2$.

# 8 PROCEEDINGS PENDING BEFORE A COURT, THE RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION AUTHORITY

As of the date of submitting this Report, the Company has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW BOGDANKA S.A. or its subsidiary is a party, concerning:

- liabilities or claims of LW BOGDANKA S.A. or its subsidiary worth at least 10% of LW BOGDANKA S.A.'s shareholders' equity,
- two or more proceedings concerning liabilities or claims worth a total of at least 10% of LW BOGDANKA S.A.'s shareholders' equity.

More information on proceedings, to which LW BOGDANKA S.A. was a party, is available in the Directors' Report on Operations of LW BOGDANKA S.A. for the period from 1 January 2012 to 31 December 2012.

# 9 OTHER SIGNIFICANT EVENTS AFFECTING THE LW BOGDANKA GROUP'S OPERATIONS, THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS

## 9.1 Free of charge shares for eligible employees

Due to the fact that LW BOGDANKA S.A. was created as a result of the restructuring of a state enterprise into a joint stock company, it was subject to the provisions of the Act on Commercialisation and Privatisation. In accordance with Article 36 of the Act on Commercialisation and Privatisation as well as on the basis of Article 17 of the Company's Articles of Association, eligible employees shall have the right to acquire, free of charge, up to 15% of shares held by the State Treasury as at the date of the Company's registration, i.e. 3,243,000 (three million two hundred and forty-three thousand) Company's Series B registered Shares.

Eligible employees may exercise the aforementioned right, provided that within 6 months from the date of the Company's registration, they submit a written statement on the intention to acquire the shares. Failure to submit the statement within the aforementioned time limit led to the loss of the right to acquire the shares free of charge. In case of the Company, the aforementioned six-month time limit commenced on the date when the Act became effective. Therefore, in compliance with Article 77 of the Act on Commercialisation and Privatisation, the six-month period lapsed on 8 October 1997.

Lists of the eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints issued by the employees were also considered. The list was created on 22 October 1997.

The transaction of disposal of 1,689,939 shares of LW BOGDANKA S.A. effected by the State Treasury on 8 December 2009 pursuant to general rules, became a gateway for the commencement of the process of making the shares of LW BOGDANKA S.A. available free of charge to eligible employees pursuant to the aforementioned Act on Commercialisation and Privatisation as well as the Regulation of the Minister of the State Treasury of 29 January 2003 on detailed rules of dividing eligible employees into groups, determining the number of shares available for each of these groups as well as acquiring the shares by the eligible employees (Dz.U.03.35.303).

The list of the eligible employees, including their period of employment in the state-owned company under commercialisation, its predecessor and the Company as well as the total period of employment in these entities, was presented in the Company's registered office on 29 December 2009.

On 3 February 2010 the Management Board of LW BOGDANKA S.A. as well as the representatives of the trade unions operating at the Company signed an agreement on specifying the number of shares of LW BOGDANKA S.A. available to each of the eligible groups, divided according to the total period of employment in the state enterprise KWK Bogdanka, its predecessor as well as the Company.

On 8 February 2010 the Management Board created a final list of the eligible employees, supplemented by the data on the number of shares to which the eligible employees are entitled.

The process of signing agreements on a free-of-charge acquisition of shares commenced on 7 April 2010, and was completed on 9 March 2012.

The right to acquire the Company's shares free of charge became effective upon the lapse of 3 months from the disposal by the State Treasury of the first shares pursuant to general rules, i.e. from 9 March 2010 onwards, and it may be exercised by the eligible employees until 9 March 2012. The right to acquire the shares free of charge is subject to inheritance, subject to the provisions of Article 38c)2–4 of the Act on Commercialisation and Privatisation. The shares acquired free of charge by the eligible employees may not be traded until the lapse of two years, or - in the case of employees being members of the Company's Management Board - three years, from the disposal by the State Treasury of the first shares on general terms.

On 28 December 2011, the Company published in Current Report No. 33/2011 the information about the final number of shares of B series which – on the basis of the Resolution of the Company's Management Board of 15 December 2011 – have been converted from registered shares into bearer shares at the end of the third business day from the Prospectus' publication date; application will be made with respect to those shares for admission into trading and initiation of trading in regulated market of Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*). The number of the aforesaid shares is 3,208,111.

On the same day, the application was filed with the Warsaw Stock Exchange for initiation of trading in those shares. In Current Report No. 34/2011 of 28 December 2011, the Company announced that the Company's plenipotentiary – BRE Bank Brokerage House (*Dom Inwestycyjny BRE Banku S.A.*) had filed, on the Company's behalf, the application for initiation of trading in shares at the Warsaw Stock Exchange as a consequence of the registration of shares with the National Depositary of Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*).

According to the Current Report, the total number of ordinary bearer shares of series B covered by the application and initiated in stock market trading as a result of registration stood at 3,208,111. The total number of all floating shares after the application-covered shares were initiated amounted to 33,978,701. It was proposed that 4 January 2012 be the date of registration and initiation.

On 29 December 2011, the Management Board of the National Depositary of Securities decided to register in the National Depositary of Securities 3,208,111 ordinary bearer shares of B series of LUBELSKI WĘGIEL BOGDANKA S.A., provided that the company running the regulated market decides to initiate those shares into trading on the same regulated market, on which other shares of that company, coded PLLWBGD00016, were initiated.

One day later i.e. 30 December 2011, the Management Board of Warsaw Stock Exchange, on the basis of the application notified by the Company in Current Report No. 34/2011, adopted the resolution on admission into stock exchange trading and initiation of stock exchange trading in ordinary bearer shares of B series of Lubelski Węgiel BOGDANKA S.A. at the WSE Main Market. 3,208,111 ordinary bearer shares of B series of Lubelski Węgiel BOGDANKA S.A. were admitted into stock exchange trading.

On 4 January 2012, 3,208,111 employee shares of Lubelski Węgiel BOGDANKA S.A., acquired free of charge by the Company's eligible employees, were introduced to the WSE. On the same day, the Company's shares were registered with the National Depository of Securities. On 4 February 2013 employee shares totalling 34,754 were dematerialised and introduced to trading on the Warsaw Stock Exchange. At present, there are 135 registered shares traded outside of the regulated market.

### 9.2 Marketing activities conducted by the Company in 2012

The execution of marketing activities at LW BOGDANKA S.A. in 2012 was based on the following documents:

- Approved "Technical and Business Plan for Lubelski Węgiel BOGDANKA for 2012";

- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" (Resolution of the Supervisory Board No. 75/VII/2010 of 28 September 2010) together with a review of the said document (Resolution of the Supervisory Board No. 32/VIII/2012 of 23 November 2012).
- In 2012 a need arose to verify the "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014". As a result, sponsorship budgets were changed and the number of entities sponsored was reduced.

In Lubelski Węgiel Bogdanka S.A.:

1. advertising sponsorship, sports is understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the strategy adopted and the advertising reach.
2. advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand.
3. promotion – promotional mix for the BOGDANKA corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's promotion and advertising unit, as well as outsourced to advertising agencies in case of official media campaigns.
4. promotion – promotional mix for the EkoKLINKIER associated brand is understood as public relations and publicity activities correlated with a product or image campaign of EkoKLINKIER bricks in the media, in order to boost the sales results of the brand. It also involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion].

The rationale behind the marketing activities undertaken:

1) advertising sponsorship, sports and other

a) achieving marketing objectives:

- continued creation of company image as a leader of the mining industry on the Polish and European market. An increase in the value of the Company's brands through a range of advertising services provided by sponsored entities. Obtaining high media coverage whose value in terms of advertising more than doubles the funds engaged in sponsorship;
- emphasising the pro-environmental image of the Company by promoting the accompanying brand in the market of construction materials, emphasising the ecological aspect of the activity conducted in all opinion-forming environments. Strengthening and authenticating the eco-friendly nature of the Company's brands;
- manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;

- promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;
- ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;

b) achieving social aims:

- minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company's projects;
- maintaining good relations with employees, which translates into continued high performance of work provided by them;
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland;
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company;
- activating the community of the Lublin region into sport, social and cultural events, which would not be initiated without the support of the Company;
- creating the image of a socially responsible company, caring about employees and their families;

2) promotion of the BOGDANKA corporate brand and the EkoKLINKIER associated brand

- creating BOGDANKA's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, as well as changes to the Company's capital structure;
- emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
- highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Execution of the 2012 advertising budget

Promotional activities for the BOGDANKA corporate brand focused chiefly on the brand's image and were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2012 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA S.A. for the Lublin region as one of few large and expansive companies in the area.

The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA S.A. at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, good relations with the general public, earning the trust of the Company's stakeholders.

In conclusion, the sponsorship of sports clubs, in particular GKS Bogdanka and Lubelski Węgiel KMŻ, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom promotional co-operation had been established.

The execution of the advertising budgets of the corporate and the associated EkoKLINKIER brand stood at 71.43% and 73.03%, respectively. The sports sponsorship budget was executed in 99.94%, whereas the execution of the budget allocated to other sponsorship stood at only 8.00%. The total savings amounted to approx. PLN 805,000 net in relation to the budget.

Table 28 Advertising budget execution at LW BOGDANKA S.A. in 2012 [in PLN '000]

| Item | Advertising budget item | Execution in 2012 [PLN net] |
|---|---|---|
| 1 | Promotion of the BOGDANKA corporate brand | 1,071.45 |
| 2 | Promotion of the EkoKLINKIER associated brand | 509.00 |
| 3 | Advertising sponsorship, sports | 7,295.50 |
| 4 | Advertising sponsorship, other | 16.00 |
| **TOTAL** | | **8,891.95** |

### 9.3 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

Lubelski Węgiel BOGDANKA is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2012, the Company's Management Board allocated to donations in the form of cash and non-cash donations of the total amount of PLN 343,059.54 (three hundred forty-three thousand fifty-nine zlotys 54/100).

In 2012, the Management Board allocated funds for the following purposes:

| | |
|---|---|
| - health care and promotion | - PLN 118,823.62 |
| - culture, art, protection of culture and tradition | - PLN 136,561.42 |
| - promotion of sports | - PLN 39,000.00 |
| - public order and safety | - PLN 25,000.00 |
| - education and science | - PLN 23,674.50 |

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2012 no contract of donation, requiring the approval of the Company's Supervisory Board, was concluded.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

### 9.4 Adoption of the CSR strategy for 2012-2015

On 1 March 2012, the Management Board of Lubelski Węgiel BOGDANKA S.A. adopted for implementation a Corporate Social Responsibility Strategy (CSR) for 2012-2015. This basic corporate document presents the vision and objectives that Bogdanka intends to achieve through sustainable development. It was created on the basis of key CSR challenges faced by the worldwide mining industry. The PwC team for sustainable development and corporate responsibility supported the company in creating the Strategy.

For many years now, LW BOGDANKA S.A. has been applying a number of corporate responsibility practices to its business activities. Adopting and implementing the comprehensive CSR Strategy means that the company has an obligation to undertake specific measures in such areas as:

- ethics and communication transparency in business practice;
- security and development of the company employees;
- innovative and active influence on the surroundings and the environment;
- achieving business objectives in accordance with the rules of sustainable development.

The CSR Strategy for LW BOGDANKA S.A. is also a commitment of constant monitoring of all the yardsticks of the activities undertaken, and to report the company's social engagement, for instance in sports and culture sponsorship, environmental protection, or improvement of the employees' security and self-development.

On 17 January 2012, The Management Board of LW BOGDANKA S.A. adopted a resolution on creating the *"Solidarni Górnicy"* (Solidary Miners) foundation and accepting its Articles of Association.

At present, the foundation is being registered in a court. A Management Board consisting of two members has been appointed. Once any formalities have been completed, the foundation will commence its operations.

The aim of the foundation will consist in providing financial support and aid to the Company employees who have been injured in acts of God, who are ill or in a difficult financial situation, as well as to their families; supporting cultural, health, ecological and other events of big local and regional importance, as well as helping victims of catastrophes, accidents and natural disasters.

### 9.5 Conclusion of an agreement with Caterpillar Global Mining Europe GmbH for the supply of another longwall ploughing system

In February 2013 Lubelski Węgiel BOGDANKA S.A. entered into an agreement with Caterpillar Global Mining Europe GmbH for the supply of another longwall ploughing system. The agreement provides that the machine will be delivered to the Company by the end of June 2014. In accordance with the Agreement, the system costs EUR 47 million, and its start-up is scheduled for the third quarter of 2014.

This is going to be the third ploughing system at the Company. Two other systems which are currently in use have also been supplied by Caterpillar Global Mining Europe GmbH.

### 9.6 Audit of purchase procedures carried out by Ernst & Young Business Advisory sp. z o.o. i Wspólnicy sp.k. and SRK CONSULTING (UK) Limited

In 2012, the Supervisory Board of LW Bogdanka S.A. has commissioned two consulting companies Ernst & Young Business Advisory sp. z o.o. i Wspólnicy sp.k. and SRK CONSULTING (UK) Limited to conduct an audit of purchasing procedures, in particular as regards mining operations, with special consideration of the conflict of interest.

Currently works related to the implementation of individual recommendations resulting from the audit are under way.

## 10. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

On 27 June 2012, the Supervisory Board adopted a resolution on appointing Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Group's financial statements and consolidated financial statements for the first halves of 2012, 2013 and 2014,
- audit the Company's financial statements and the consolidated financial statements of the Group for 2012, 2013 and 2014.

The agreement with the auditor was concluded on 17 July 2012 for a term within which the auditor is able to carry out the audit.

The Company has not used the services of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) in previous years.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) was entered on 7 February 1995 under number 73 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Company's Supervisory Board selected the auditor in accordance with Article 32.1.4 of the Company's Articles of Association, in compliance with the applicable legislation and professional standards.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) along with Deloitte Advisory Sp. z o.o., Deloitte Doradztwo Podatkowe Sp. z o.o., Deloitte Business Consulting S.A., Deloitte Polska Sp. z o.o., Deloitte PP Sp. z o.o., Deloitte Strategy and Research Sp. z o.o., Deloitte Services Sp. z o.o. and Deloitte Legal, Pasternak, Korba i Wspólnicy Kancelaria Prawnicza Sp. k. jointly referred to as - Deloitte PL – are associated entities of Deloitte Central Europe Holdings Limited.

Table 29 Fee for PricewaterhouseCoopers for the review and audit of the financial statements and the fees for other services [PLN '000 net]

| Deloitte PL | 2012 | 2011 |
|---|---|---|
| – auditing annual financial statements | 66*(1) | 0 |
| – other certifying services, including a review of financial statements | 44* | 0 |
| – tax advisory services | 14** | - |
| – other services | 123.59*** | 103.47*** |
| **Total** | **203.59** | **103.47** |

* Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.)

** Deloitte Doradztwo Podatkowe Sp. z o.o.

***Deloitte Advisory Sp. z o.o.

(1) of which PLN 22,000 is payable after a preliminary audit, and PLN 44,000 after the Company is provided with final versions of the Opinion and the Report of the audit of separate financial statements and the Opinion and the Report of the audit of consolidated financial statements.

## 11. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

### 11.1 Corporate governance rules applicable at LW BOGDANKA S.A.

In 2012, LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Supervisory Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010. Currently, the Company applies the rules of corporate governance based on the "Code of Best Practice for WSE Listed Companies" passed with the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. "Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

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

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

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

Lubelski Węgiel BOGDANKA S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

Further, the self-audit requirement is kept in place for all employees, as well as the functional supervision obligation for all levels of management, as part of their co-ordination and supervisory duties.

Control mechanisms intended for implementation of the following control aims have been implemented in LW BOGDANKA S.A.:

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA S.A. are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW is the parent entity.

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA S.A. and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. A chartered auditor is appointed by the Company's Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

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

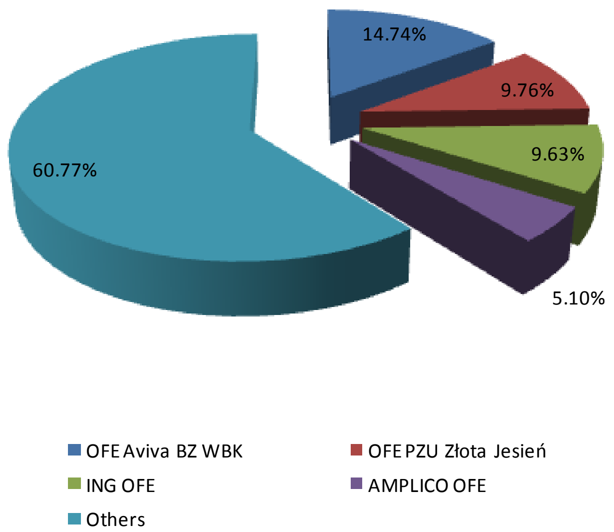
Table 30 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 7 November 2012 and 21 March 2013

| Shareholder | 7 November 2012 | | 21 March 2013 | |
|---|---|---|---|---|
| | Number of shares/ Number of votes at the GSM | Share in the share capital (%)* | Number of shares/ Number of votes at the GSM | Share in the share capital (%)* |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK* | 5,014,644 | 14.74 | 5,014,644 | 14.74 |
| Otwarty Fundusz Emerytalny PZU "Złota Jesień" ** | 3,320,377 | 9.76 | 3,320,377 | 9.76 |
| ING Otwarty Fundusz Emerytalny *** | 3,275,953 | 9.63 | 3,275,953 | 9.63 |
| AMPLICO Otwarty Fundusz Emerytalny**** | 1,734,194 | 5.10 | 1,734,194 | 5.10 |

| | | | | |
|---|---|---|---|---|
| Other | 20,668,422 | 60.77 | 20,668,422 | 60.77 |
| **Total** | **34,013,590** | **100.00** | **34,013,590** | **100.00** |

* According to the Notification received on 25 March 2010, described in Current Report No. 11/2010.
**According to the Notification received on 18 March 2010, described in Current Report No. 10/2010.
***According to the Notification received on 11 August 2010, described in Current Report No. 35/2010.
****According to the Notification received on 12 May 2010, described in Current Report No. 17/2010.

Chart: The shareholding structure of LW BOGDANKA S.A. as at 21 March 2013.




### 11.4 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.

### 11.5 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.

### 11.6 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.

### 11.7 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.

## 11.8 Governing bodies of the companies

### 11.8.1 Management Boards

#### 11.8.1.1 Description of rules regarding appointment and dismissal of management officers at the Parent Undertaking as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

**Appointment of Management Board members**

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting 3 (three) years.

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

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

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

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

**Dismissal of Management Board members**

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

### 11.8.1.2 Compositions of the Management Boards

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

<table>
<tr><th></th><th>Management Board appointed on 5 March 2010</th><th>As at 3 March 2011</th><th>As at 27 September 2012</th><th>As at 23 November 2012</th><th>As at 4 March 2013</th><th>As at 11 March 2013</th></tr>
<tr><td>Mirosław Taras</td><td colspan="2">President of the Management Board</td><td>Dismissal from the position of the President of the Management Board</td><td></td><td></td><td></td></tr>
<tr><td>Zbigniew Stopa</td><td colspan="2">Vice-President of the Management Board, Technical Affairs</td><td>Acting President of the Management Board</td><td colspan="3">President of the Management Board</td></tr>
<tr><td>Krystyna Borkowska</td><td colspan="4">Vice-President, Economic and Financial Affairs, Chief Accountant</td><td colspan="2">Vice-President of the Management Board – Chief Accountant</td></tr>
<tr><td>Waldemar Bernaciak</td><td colspan="6">Vice-President of the Management Board, Trade and Logistics</td></tr>
<tr><td>Lech Tor</td><td></td><td colspan="5">Member of the Management Board, elected by the employees</td></tr>
<tr><td>Roger de Bazelaire</td><td></td><td></td><td></td><td></td><td colspan="2">Vice-President of the Management Board, Economic and Financial Affairs</td></tr>
<tr><td>Krzysztof Szlaga</td><td></td><td></td><td></td><td></td><td></td><td>Member of the Management Board, Procurement and Investments</td></tr>
<tr><td colspan="7">*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.</td></tr>
</table>

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

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

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

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

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

Pursuant to the Parent Undertaking's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

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

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

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards;
2. Represents the Company in relations with third parties;
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
    a) company organisation,
    b) supporting the operations of the Company's governing bodies,
    c) privatisation, Company restructuring,
    d) ownership supervision and capital investments,
    e) internal structural and ownership transformations,
    f) providing information and reports to investors, shareholders and stock exchange institutions,
    g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
    h) co-operation with the media and the information policy,
    i) current records archive and general secretariat,
    j) internal audit in the Company,
    k) matters of defence,
    l) HR policy, employee and social issues,
    m) occupational health and safety, training workshops,
    n) diversification of the Company's operations and EU integration,
    o) future plans with regard to the development and modernisation of the production process,
    p) protection of personal data and confidential information,
    q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,
    r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,
    s) monitoring the quality of construction ceramics.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

**The Vice-President for Economic and Financial Affairs** holds responsibility for the Company's operations in the following areas:

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

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

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

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

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.
8. Computerisation of the Company.

9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

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

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

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

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

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

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

**President of the Management Board:**

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards.
2. Represents the Company in relations with third parties.
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
   a) company organisation,
   b) supporting the operations of the Company's governing bodies,

c) privatisation, Company restructuring,

d) ownership supervision and capital investments,

e) internal structural and ownership transformations,

f) providing information and reports to investors, shareholders and stock exchange institutions,

g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans as well as implementing the strategic management and project management at the Company,

h) co-operation with the media and the information policy,

i) current records archive and general secretariat,

j) internal audit in the Company,

k) matters of defence,

l) HR policy, employee and social issues,

m) occupational health and safety, training workshops,

n) diversification of the Company's operations and EU integration,

o) future plans with regard to the development and modernisation of the production process,

p) protection of personal data and confidential information,

q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,

r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,

s) monitoring the quality of construction ceramics.

5. Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:

a) environmental protection and utilisation of pit waste.

b) maintaining and developing production capacity.

c) deposit management planning.

d) trade coal mining and production.

e) keeping surveyor and geological records, as well as production records.

f) technical and economic progress.

g) organising and planning production and mine development.

h) research and implementation.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

**The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:**

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

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

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

Managing the Company's finances.

2. Supervising the work of subordinate departments, including in particular:

   a. Organisation of accounting activities at the Company.
   b. Drawing up the required current and annual financial statements.
   c. Compiling internal reports for the Company's governing bodies with respect to data from the financial statements.
   d. Ongoing analysis of settlement accounts (accounts receivable and liabilities).
   e. Approving documents for payment and posting.
   f. Organising the work related to financial management in terms of cash accounting and settlements with third parties.
   g. Providing financial and bookkeeping services.
   h. Accounting and settlements with business partners.
   i. Continuous stocktaking.

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

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Material and machinery management.
4. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
5. Market analyses.
6. Rail transportation.
7. Logistics.

**Member of the Management Board for Procurement and Investments** organises and supervises the Company's operations in particular in the following areas:

1. Investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures.
2. Budgeting and estimating costs of services and purchases.
3. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues.
4. Waste utilisation and recycling.
5. Production and sales of construction ceramics.

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

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

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

In 2012 there was no change in the composition of the Company's proxies.

On 11 January 2013 the power of proxy for Mr Janusz Chmielewski was revoked by the Company's Management Board.

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

Łęczyńska Energetyka Sp. z o.o.

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

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

### 11.8.2 Companies' Supervisory Boards

#### 11.8.2.1 Composition

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

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

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

On 27 April 2012, the Annual General Shareholders Meeting appointed members of the Supervisory Board of the 8th term of office in the following composition:

| | | |
|---|---|---|
| 1. Witold Daniłowicz | · | Chairman of the Supervisory Board, |
| 2. Stefan Kawalec | · | Vice-Chairman of the Supervisory Board, |
| 3. Raimondo Eggink | · | Secretary of the Supervisory Board, |
| 4. Robert Bednarski | · | Member of the Supervisory Board, |
| 5. Dariusz Formela | · | Member of the Supervisory Board, |
| 6. Eryk Karski | · | Member of the Supervisory Board, |
| 7. Tomasz Mosiek | · | Member of the Supervisory Board, |

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

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

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

1. The responsibilities of the Supervisory Board include:
   1) assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts. The above applies also to the consolidated financial statements of the capital group, if such a report is prepared.
   2) assessing motions of the Management Board regarding the distribution of profits or covering of losses;

3) submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
4) selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
5) determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
6) approving of the Company's long-term strategic plans as well as changes thereto;
7) approving of the Company's annual business plans (specifying the tasks to be performed and the related budgets) as well as changes thereto,
8) adopting rules laying down the detailed procedure followed by the Supervisory Board;
9) adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,
10) approving the Management Board rules;
11) approval of the Rules of Procedure of Internal Audit and Control as well as changes thereto.

2. The powers of the Supervisory Board shall include granting consent to the Management Board for the following:
   1) acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00;
   2) acquisition, sale or production of tangible fixed assets, fixed assets in construction or intangible assets which are not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
   3) establishment of a security regarding any liability of the Company or a third party, which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 250,000;
   4) entering into an agreement by the Company or performing any other legal act other than those indicated in 2a) or 2b), which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, where the total value of the Company's benefits or receivables (with respect to one or more related legal actions and regardless of a period which they cover), exceeds the PLN equivalent of EUR 10,000,000, except for agreements entered into as part of the Company's core business;
   5) conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 5,000.00, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association. The equivalent of the amount is calculated at the exchange rate quoted by the National Bank of Poland as at the date of concluding the agreement;
   6) entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;

7) entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;

8) contracting liabilities, i.e. a loan, credit, security or similar, of which all material terms and conditions are not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, except for the issue of securities referred to in Article 52.3.5, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000;

9) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness.

3. Additionally, the Supervisory Board's powers shall include in particular:

1) appointing and dismissing members of the Management Board,

2) establishing the remuneration rules and remuneration amounts to be received by the Management Board members,

3) suspending the members of the Management Board from office for important reasons,

4) delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,

5) representing the Company in agreements and disputes between the Company and the Management Board members,

6) granting consent to the creation of foreign branches of the Company,

7) granting permission to Management Board members for accepting positions on the governing bodies of other companies,

8) approval of dismissal of a person in charge of the Company's organisational unit responsible for internal audit and control.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee and the Appointment and Remuneration Committee are standing committees at the Supervisory Board.

#### 11.8.2.3 Audit Committee at LW BOGDANKA S.A.

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

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of three members, at least two of whom shall be independent members, and at least one of them possesses competence with regard to accounting or auditing. The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee shall include:

- monitoring the process of financial reporting and performing audits,
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered auditor to be selected,
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
- providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

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

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

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

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

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

#### 11.8.2.4 Appointment and Remuneration Committee

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

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

In connection with the dismissal of Mr Mirosław Taras from the position of President of the Management Board of LW BOGDANKA S.A. on 27 September 2012, the Appointment and Remuneration Committee participated both in selection of the company that could be a personal adviser to the Supervisory Board in the recruitment process as well as in the recruitment of new members of the Management Board of the Company. The Appointment and Remuneration Committee, in cooperation with a legal counsel, finalised draft contracts of employment for all members of the new term Management Board.

In addition, the Appointment and Remuneration Committee continues the work of the previous term Supervisory Board on implementing a share-based incentive programme in the Company.

### 11.8.3 General Shareholders Meeting of LW BOGDANKA S.A.

#### 11.8.3.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA S.A. holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA S.A., members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts.
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- merger, transformation or demerger of the Company,
- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company.
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,

disposal of subscribed for or acquired shares in another company.

## TABLES

**SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS**

| | |
|---|---|
| Zbigniew Stopa | President of the Management Board |
| Waldemar Bernaciak | Vice-President of the Management Board, Trade and Logistics |
| Roger de Bazelaire | Vice-President of the Management Board, Economic and Financial Affairs |
| Krystyna Borkowska | Vice-President of the Management Board, Chief Accountant |
| Krzysztof Szlaga | Member of the Management Board, Procurement and Investments |
| Lech Tor | Member of the Management Board, elected by the employees |

***Bogdanka, 14 March 2013***