DIRECTORS' REPORT ON OPERATIONS
OF LUBELSKI WĘGIEL BOGDANKA S.A.

for the period from 1 January 2012 to 31 December 2012

BOGDANKA, MARCH 2013

CONTENTS

1. BASIC INFORMATION ON LW BOGDANKA S.A.

1.1. Name and registered office of the Company

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

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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

1.2. Legal Form

Lubelski Węgiel BOGDANKA S.A. is a joint stock company, operating under the laws of Poland.

The Company was created as a result of the restructuring of the state enterprise Kopalnia Węgla Kamiennego Bogdanka with registered office in Bogdanka, under the Act on the Privatisation of State Enterprises of 13 July 1990 (Dz. U. No. 51, item 298, as amended). The deed of transformation of a state-owned enterprise into a company wholly owned by the State Treasury operating under the business name: Kopalnia Węgla Kamiennego Bogdanka S.A. was prepared on 1 March 1993 (Rep. A No. 855/1993). In performance of a bank settlement, as a result of debt conversion, mine plant KWK Bogdanka S.A. ceased to be a state-stock company as at 29 December 1994, as the new shareholders (creditors) took up 4.0 % of shares in the Company.

On 9 March 2010 the State Treasury sold 46.69% of shares in the Company. Therefore, it ceased to hold a majority in the Company's share capital. The number of Company's shares amounts to 34,013,590. On 4 January 2012, 3,208,111, and on 4 February 2013, 34,754 employee shares were introduced to trading on the Warsaw Stock Exchange. The total number of LW BOGDANKA's shares in public trading amounts to 34,013,455. As at the date of publishing this Report, the outstanding 135 shares are registered shares.

1.3. Legal regulations which provide a basis for the Company's activities

The Company operates on the basis of legal acts which include the following:

- the Commercial Companies Code of 15 September 2000 (Dz.U. of 2000, No. 94, item 1037);
- the Geological and Mining Law of 9 June 2011 (Dz.U. of 2011 No. 163, item 981).

The founder of the Company is the State Treasury, represented by the Minister of the State Treasury.

The Company may operate in Poland and abroad.

The Company was established for an indefinite term.

1.4. History of the Company and its legal predecessors

Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka is a legal successor of a state enterprise under name KWK Bogdanka with registered office in Bogdanka.

The enterprise history begins with Resolution No. 15/75 of the Council of Ministers adopted on 17 January 1975 – i.e. decision on construction of a pilot and excavation mine in Bogdanka. Groundbreaking plaque for the enterprise was Ordinance No. 4 of the Minister of Mining and Power Industry on establishment of a state enterprise under name Kopalnie Lubelskiego Zagłębia Węglowego w Budowie (under construction) (KLZW w budowie) of 17 January 1975. The Minister of Mining and Power Industry with Ordinance No. 15/Org/84 of

1 January 1985 put KLZW w Budowie into liquidation and on its base he created Lubelsko-Chełmskie Gwarectwo Węglowe w budowie (under construction) (LChGW w budowie). By virtue of Resolution of the Council of Ministers No. 34/88 of 8 February 1988, construction of one of the two mines of LChGW w budowie – i.e. K-2 mine in Stefanów - was discontinued. With Ordinance No. 72/Org/88 of the Minister of Industry of 30 June 1988, LChGW w budowie was put in liquidation on 1 October 1988. On 31 December 1988, the property and rights and obligations of the liquidated company were transferred to a state-owned enterprise under the name Dąbrowskie Gwarectwo Węglowe in Sosnowiec.

As at 31 December 1988, under Ordinance No. 44 of the President of the Council of Ministers of 4 November 1988, the state enterprise Dąbrowskie Gwarectwo Węglowe was divided, along with other mining consortia, and Przedsiębiorstwo Eksploatacji Węgla Wschód in Sosnowiec was created, into which KWK Bogdanka was included as an independent establishment of that enterprise. In November 1989, by virtue of Resolution of the Council of Ministers No. 7/89 financing construction of the mine from the state budget means was suspended.

On 23 December 1989, the Minister of Industry, as a result of a division of the state-owned enterprise – Przedsiębiorstwo Eksploatacji Węgla Wschód, on 1 January 1990 formed, pursuant to Ordinance No. 335/Org/89 – a state-owned enterprise under the name Kopalnia Węgla Kamiennego Bogdanka in Bogdanka.

In connection with the political and economic transformation started in Poland, under Ordinance No. 42/Org/93 as at 1 March 1993, pursuant to Article 2.1 of the Act on Transformations of Certain State-Owned Enterprises of Particular Importance for the State Economy of 27 February 1993 (Dz.U. No. 16, item 69), the state-owned enterprise was transformed in a state-stock company under the name Kopalnia Węgla Kamiennego Bogdanka Spółka Akcyjna in Bogdanka. The Company was registered on 30 April 1993 in the District Court in Lublin, VIII Commercial Division.

On 26 August 1994, pursuant to provisions of the Act on Financial Restructuring of Enterprises and Banks and Amending Certain Acts (Dz.U. No. 18, item 82 as amended), KWK Bogdanka S.A. concluded a bank settlement with Bank Depozytowo Kredytowy w Lublinie S.A., which became final on 28 September 1994. As a result of the bank settlement, on 29 December 1994 the Company's share capital was increased by means of an issue of Series B shares and Series C shares (18 April 1995), which were taken up under debt conversion by: State Treasury, Bank Depozytowo-Kredytowy w Lublinie S.A., Puchaczów commune and National Fund for Environmental Protection and Water Management in Warsaw. Creditors in the settlement procedure took up the total of 4.01% of the Company's share capital.

Within the process of equity and organisation restructuring of the Group, the Extraordinary General Shareholders Meeting of KWK Bogdanka S.A. on 10 August 2000 as well as the Lubelski Węgiel Group on 11 August 2000 adopted resolutions on the merger of KWK Bogdanka S.A. (the acquiring company) and the Lubelski Węgiel Group (the target company) by way of incorporation with no increase in the capital, in accordance with the balance sheets as of 30 June 2000. The established share exchange ratio was: 1 share of KWK Bogdanka S.A. for 4.59 shares of the Lubelski Węgiel Group.

The District Court in Lublin – XI Commercial and Registration Division registered the merger of the companies and crossed out the Lubelski Węgiel Group from the register as of 2 January 2001.

For the purpose of allocating shares to the existing shareholders of the Lubelski Węgiel Group – KWK Bogdanka S.A., on the basis of the resolution of the Extraordinary General Shareholders Meeting No. 2 of 10 August 2000, acquired 181 own shares from KOBO sp. z o.o. on 2 January 2001. The shares were issued to one legal person and ten natural persons.

By virtue of Resolution No. 1 of the Extraordinary General Shareholders Meeting of 12 February 2001, the Company's name was changed from KWK Bogdanka S.A. into Lubelski Węgiel BOGDANKA S.A.

On 26 March 2001 Lubelski Węgiel Bogdanka Spółka Akcyjna was registered in the Register of Entrepreneurs maintained by the District Court in Lublin, XI Division of the National Court Register, under KRS No. 0000004549.

By virtue of Resolution No. 2 of 28 December 2004, the Extraordinary General Shareholders Meeting, with the shareholders' consent, retired 19,610 Series B registered Shares and by virtue of Resolution No. 3 has decreased the share capital of the Company by PLN 980,500 to the amount of PLN 115,067,950.

The District Court in Lublin – XI Commercial Division of the National Court Register as of 13 January 2005 registered the change to the Company's share capital and the amendment to the Articles of Association.

On 29 April 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution authorising the Management Board to undertake activities aimed at preparing the procedure for the first public offering of the shares issued within the framework of increasing the Company's share capital as well as admitting and introducing shares to trading on the stock exchange.

On 14 November 2008 the Extraordinary General Shareholders Meeting of the Company adopted a resolution regarding:

- preparing financial statements of the Company in compliance with the International Accounting Standards (IAS) as well as International Financial Reporting Standards (IFRS);
- increasing the Company's share capital by up to PLN 55,000,000.00 by means of a public issue of up to 11,000,000 of the new ordinary Series C bearer Shares with par value of PLN 5.00 per share, with a total exclusion of a pre-emptive right of the previous Company's shareholders;
- applying for admitting Series A Shares, Series B Shares and Series C Shares as well as rights to the Company's Series C Shares to trading on the regulated market as well as their dematerialisation;
- authorising the Management Board to acquire Rights to Series C Shares and the Company shares.

On 28 November 2008 the Company submitted the Issue Prospectus to the Financial Supervision Authority (the "Financial Supervision Authority"), which was prepared in relation to the public offering of Series C Shares and intention to apply for admitting Series A Shares, Series C shares and Rights to Series C Shares to trading on the regulated market (the "Issue Prospectus" or the "Prospectus") . The Prospectus was approved by the Authority on 14 May 2009.

On 22 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, WSE) decided to admit to public trading on the main market the following Company shares:

1. 19,770,590 Series A Shares,
2. 11,000,000 Series C Shares.

On 23 June 2009 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. decided to introduce on a standard basis, 11,000,000 Rights to ordinary Series C bearer Shares of Lubelski Węgiel BOGDANKA S.A. with par value of PLN 5.00 per share, to trading on the main market as of 25 June 2009.

The first day of quotation of Rights to Series C Shares at the WSE was 25 June 2009.

O 13 July 2009 the Company received the decision of the District Court in Lublin, XI Commercial Division of the National Court Register of 10 July 2009 regarding the registration of the increase in the share capital of LW BOGDANKA S.A. by means of the issue of 11,000,000 of Series C Shares of the Company.

As at the date of submitting the Report, the share capital after the registration amounts to PLN 170,067,950 and is divided in 34,013,590 shares with par value of PLN 5 per share.

On 17 July 2009, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. adopted a resolution designating 21 July 2009 as the date of the last quotation of 11,000,000 rights to the Company shares.

The Management Board of the WSE also adopted a resolution on introducing on a standard basis to trading on the main market the following ordinary bearer shares of LW BOGDANKA S.A.:

- 19,770,590 Series A Shares, marked with the code "PLLWBGD00016" by the National Depository of Securities (the "NDS");
- 11,000,000 Series C Shares, on the condition that on 22 July 2009 the NDS would register the Series C Shares and mark them with the code "PLLWBGD00016".

The first quotation of the Series C Shares on the WSE was carried out on 22 July 2009.

On 9 March 2010, the State Treasury sold 46.69% of shares in the Company on the Stock Exchange. Therefore, it ceased to hold a majority in the Company's share capital.

The stages of privatisation of LW BOGDANKA S.A. were recorded at the beginning of 2008 in the "Privatisation Plan for 2008-2011", prepared by the Minister of the State Treasury.

As provided for under the Act on Commercialisation and Privatisation of State-Owned Enterprises of 30 August 1996 (Dz. U. of 1996, No. 118, item 561), after the State Treasure had sold its first shares on general terms, which took place on 9 December 2009, the process of signing contracts for gratuitous acquisition of shares by eligible employees was initiated on 7 April 2010. The process was completed on 9 March 2012. This deadline does not apply to those heirs of eligible employees deceased before its expiry who, by 9 March 2012 at the latest, petitioned the court for inheritance ascertainment or produced to the Company a registered inheritance certificate prepared by a notary public. Such heirs have 24 months from the date of the court's decision on inheritance ascertainment becoming final and legally binding or one month from the date of producing the inheritance certificate to conclude the agreement on free-of-charge acquisition of shares. More information is provided in section 11.1 of the Report.

1.5. Organisational structure and 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 perform 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 Company'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.

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 7th 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 13.8.1 of the Report.

1.6. Changes in basic management rules of LW BOGDANKA S.A. and the LW BOGDANKA Group

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

- 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:

a) "Regulations for procedures associated with invention projects" were introduced,

b) Amended Enterprise Risk Management System (ERM) was implemented,

c) Amended Work Regulations were adopted,

d) 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,

e) 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",

f) 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,

g) 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,

h) 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",

i) Amended Instruction for performing stocktaking in Lubelski Węgiel BOGDANKA S.A. was introduced,

j) New principles of granting and registering powers of attorney issued by the Company were introduced,

k) 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.

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

- 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.

1.7. Information on branches (establishments) owned by the Company

Lubelski Węgiel BOGDANKA does not have any branches (establishments).

1.8. Organisational and capital affiliations of LW BOGDANKA S.A.

In 2012 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name Registry No.	Company's share in the share capital		Share capital	Core activities
	31 Dec. 2011	31 Dec. 2012 and 21 Mar. 2013		
Łęczyńska Energetyka Spółka z ograniczoną odpowiedzialnością in Bogdanka KRS 0000007317	88.70 % (73,332 shares)	88.70 % (73,332 shares)	PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
Kolejowe Zakłady Maszyn KOLZAM S.A. in Racibórz KRS 0000115564	24.41 %	24.41 %	PLN 750,000.00 divided into 150,000 shares of PLN 5.00	manufacturer of a rolling stock company in bankruptcy

Łęczyńska Energetyka sp. z o.o.

Łęczyńska Energetyka sp. z o.o. with registered office in Bogdanka (hereinafter referred to as "Łęczyńska Energetyka", the "subsidiary") provides the Company with services with regard to heat energy supplies and conducts water and wastewater management. The subsidiary holds water supply and sewage effluent disposal consent for:

- use of intakes and collection of underground waters in Bogdanka, Nadrybie and Stefanów,
- disposal of cleaned sewage,
- usage of devices cleaning sewage.

Łęczyńska Energetyka also conducts activities with regard to managing hazardous waste.

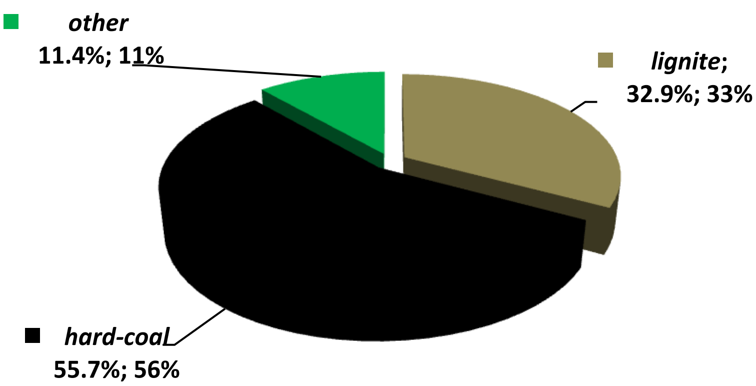
2. DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITY

2.1. The coal market in Poland

Hard coal is Poland's most important energy source.

Coal is Poland's main energy source, accounting for 89% of domestic electrical energy output, 56% of which is attributable to hard coal and 33% to lignite. The remaining 11% is generated by gas and RES (renewable energy sources). The role of hard coal as a primary energy carrier in Poland's energy security policy is growing, due to substantial coal deposits, especially in view of the consistently high prices of other energy sources, crude oil and natural gas in particular.

Chart: The structure of fuels used to generate electrical energy in Poland in 2011

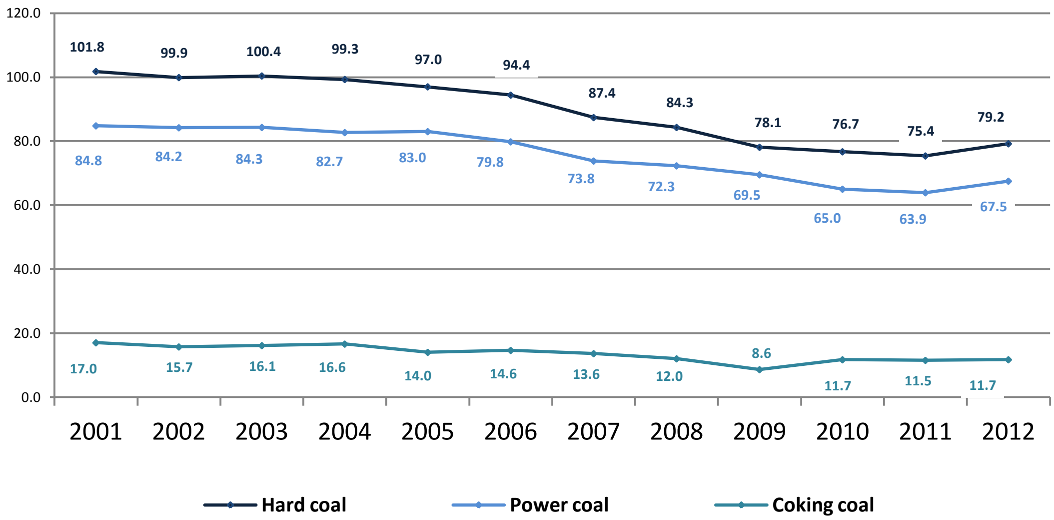


Source: The Energy Market Agency (ARE S.A.)

Poland's hard coal market as compared to the European market

Poland is a major hard coal producer in the world and the biggest hard coal producer in the European Union. In 2012 Poland produced approx. 79 million tonnes of hard coal, as compared to approx. 76 million tonnes in 2011. Power coal is the main type of hard coal mined in Poland, with the 2012 output amounting to 68 million tonnes (64 million tonnes in 2011).

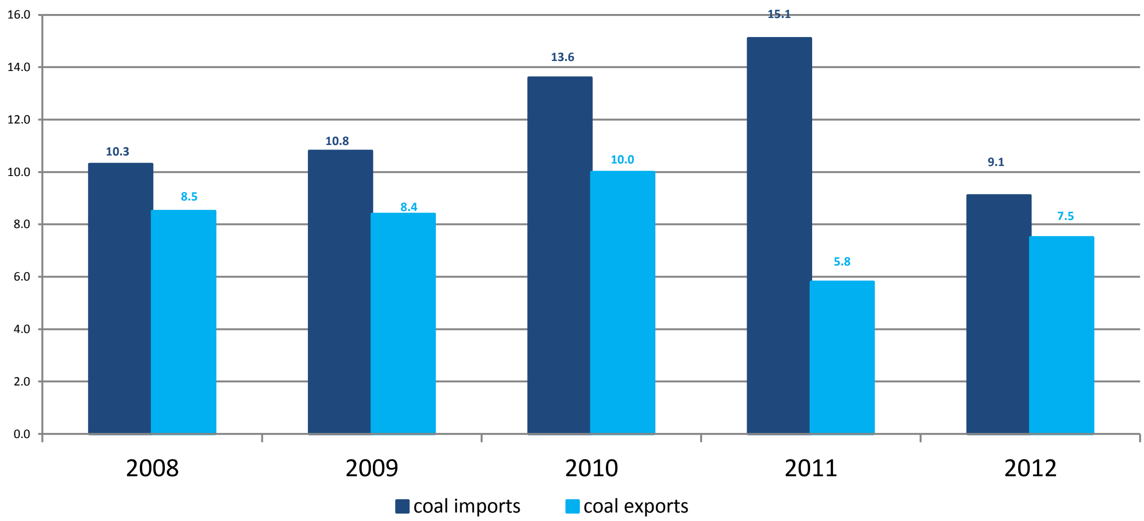
Chart: Poland's hard coal output in 2001-2012 (million tonnes)



Source: Industrial Development Agency (ARP S.A.)

In 2012, 7.5 million tonnes of hard coal were exported. Compared to 2011, when 5.8 million tonnes of coal were exported, this constitutes a rise by 1.7 million tonnes. In turn, 2012 brought about a drop in hard coal imports to 9.1 million tonnes, compared to 15.1 million tonnes in 2011.

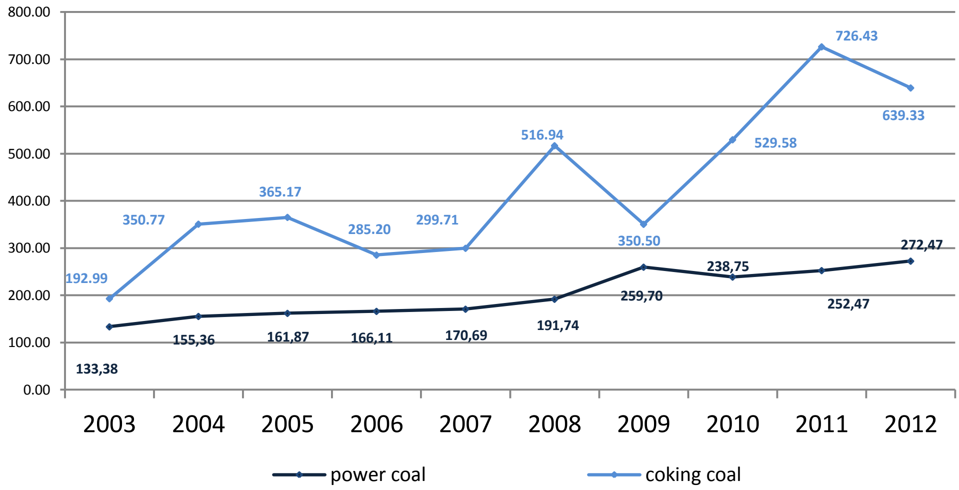
Chart: Poland's hard coal trade balance in 2008-2012 (million tonnes)



Hard coal prices

In 2012 a drop in Poland's hard coal output was recorded. From 2011 to 2012 the price per tonne of power coal rose by 7.5%.

Chart: Average price of hard coal in Poland in 2003-2011 (PLN per tonne)



2.2. Information on activities conducted by the Company

The scope of the LW BOGDANKA's main business activity includes mining activities related to economic mining of hard coal and enriching excavated raw coal, sale of coal to consumers, and the protection and reclamation of mining areas.

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).

The Company's 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.

2.3. Compliance with technical regulations and standards

The Mining Plant Lubelski Węgiel BOGDANKA S.A. is operated in line with requirements of Geological and Mining Law (9 June 2011, Dz.U. No. 163, item 981 of 5 August 2011) and in line with requirements of executive regulations as issued pursuant to Article 120 and with consideration given to Article 224 of the Geological and Mining Law, and using applicable standards.

Works in the operation of the mining plant are carried out with the observance of principles of mining technology, occupational health and safety rules, fire safety rules, rationalised deposit management, environmental protection and securing and repairing mining damage. The basic ground for the Lubelski Węgiel BOGDANKA S.A. mining plant to conduct its operations is its Operational Plan. In 2012, a new edition was compiled of the Operational Plan, in compliance with the requirements of the new Geological and Mining Law, which covers the period 2013-2015, approved by the Director of the District Mining Authority in Lublin on 21 December 2012.

The mine holds the technical designs required to extract its seams 382, 385/2 and 391, technical designs for its extraction and heading workings, technical documentations for its transport systems, as well as the necessary technologies and work safety instructions. Operation of the mine's basic buildings and facilities (e.g. shafts, fan stations, personnel transport systems) takes place based upon permits issued by the Director of the District Mining Authority in Lublin, whereas operation of its remaining machinery based upon permits issued by the Mining Plant's maintenance manager. Its machines, facilities and materials, as well as its blasting means, have their relative permits obtained from the Head of the State Mining Authority to be used underground, voluntary certificates, or conformance statements issued by their manufacturers. Works in the operation of the Mining Plant are managed by its engineering staff who have qualifications as required by law and have been confirmed by the State Mining Authority in Katowice or the District Mining Authority in Lublin.

2.4. Quality Control

I. Coal Quality Control in Lubelski Węgiel BOGDANKA S.A. includes:

1. Sampling and analysis at the bottom of the mine of the coal excavated by the particular Departments, as well as taking and analysing channel samples.
2. Sampling and testing the raw coal being excavated from the bottom of the mine and conveyed to its mechanical processing plant.

3. Sampling and tests of the commercial coal, i.e. fine coal, nut coal and pea coal produced by Lubelski Węgiel BOGDANKA S.A.
4. Controlling the processes that are going on in the Mechanical Coal Processing Plant (Zakład Przeróbki Mechanicznej Węgla) in the area of:
   a. jig drilling fluid:
      – analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of screenings and drilling fluid products, i.e. waste, concentrate, slurry, and washing water;
   b. heavy drilling fluid:
      – analysing the material treated mechanically with the drilling fluid for crushing and drilling purposes, analysis of drilling fluid products, i.e. waste, concentrate, interlayer, washing water, and slurry.

5. Control of processes going on at the EKOKLINKIER Construction Ceramics Plant in the area of sampling and testing coal shale and the ceramic mass.

6. Commercial coal quality claims.

Within the structure of the Quality Control Department, the mine's laboratory conducts:

– mine air and mine gas analyses;
– dust levels and silica content analyses;
– analyses of parameters of coal, coal shale and ceramic body;
– measurements of noise intensity;
– measurements of mechanical vibrations.

In line with the requirements of PN – EN ISO/IEC 17025:2005/Apl:2007, the Company's laboratory holds its accreditation no. AB 895 issued by the Polish Accreditation Centre in Warsaw to make measurements and analyses, i.e.:

– noise intensity and mechanical vibrations;
– air dust and free crystalline silica content;
– sampling and chemical analysis of coal shale and the ceramic mass;
– sampling of the commercial coal and chemical analyses.

II. The EKOKLINKIER Construction Ceramics Plant has in place its "Plant Construction Ceramics Production Control System" that is compliant with PN-EN 771-1: 2006 (EN 771-1 : 2003; EN 771-1 : 2003/A1 : 2005) - PCBC S.A. Certificate no. 1434-CPD-0002. The following items are inspected are: raw material (coal shale), additives (sand, pigment, clay), parameters of manufacturing processes, and the finished products themselves. The finished products are tested for their dimensions, strength, water absorption, and frost resistance. The instruments that are used to make the above-mentioned tests are calibrated.

2.5. Description and assessment of technical equipment and the technologies used

In 2012 Lubelski Węgiel BOGDANKA S.A. excavated its coal using the panel "from the field" system with fall of roof, by means of the coal-cutting machine and plough mining techniques.

Longwall galleries are drilled in appropriate advance and built in full prior to starting up the panel. Both longwall galleries are liquidated on a regular time basis downstream the front of the panel and two new galleries are built for each successive panel.

The panels are from 250 m up to 310 m long, and panel lengths, depending upon the exploitation field size, are even over 5,000 m (panel 7/VII/385 in Stefanów).

The longwall galleries are built in an open arch lining arrangement with section V36 and typical frame spacing of 0.75-0.9 m. In these galleries mainly sets of the ŁPSC series of types (6- or 7-piece) was used. A typical size of sets for longwall galleries in the case of coal-cutting panels was 10/K and 11/S, whereas in the case of coal-ploughing panels the sizes used were 11/S and 12/S. In the longwall galleries for coal-ploughing panels, due to the large cross-section of headings and the commonly used span size of 0.9 m, the standard procedure is to anchor the rock mass, strengthening the support lining.

Currently, four-piece sets are usually used in corridor workings that have been in existence for longer periods of time, and in the longwall galleries only in case of intensive horizontal clamping and strong floor uplift, whereas the lining is then closed with a certain delay, as soon as the floor uptake has been completed. In case of four-piece sets in the longwall galleries, within the distance of several dozen metres before the panel front, foot pieces are being dismantled.

Crossings of the longwall galleries with the panel are maintained in a non-standing manner by anchoring roof-bar arches using anchoring horseheads, i.e. simple elements made of sections V-32 or V-36 with a hole, anchored using a string anchor with its total length of 6.0 m (the so called high anchoring).

In 2012, wall panels were exploited using heavy-duty mining and lay-by coal-cutting machine and coal-ploughing complexes.

Each powered complex consists of:

a) panel and under-panel conveyor with performance up to 1 600 tonnes/h and high reliability and durability;

b) in the case of coal-cutting machine complexes, a panel coal-cutting machine with web depth from 0.8 m up to 1.0 m, working and manoeuvring speeds up to 16 m/min, equipped with automatic travelling speed adjustment systems and operation mode signalising systems;

c) in the case of coal-ploughing complexes, a slide plough fully integrated with a wall conveyor and a wall support system, which can be controlled automatically;

d) powered panel roof support with support capacity of 0.8 – 1.0 MPa, which provides for appropriate roof maintenance, equipped with the latest generation control systems that makes it possible to build the roof with speed adjusted to the coal-cutting machine's mining speed or the operation of the plough.

For a number of years now, LW BOGDANKA has been achieving the highest panel excavation concentration levels and the highest efficiency of work in the entire industry. This is provided by heavy-duty panel complexes and using lay-by cycles in the form of belt conveyors with belts 1200 mm long, high belt travelling speeds and peak performance levels as high as 1600 tonnes/h.

In 2012, LW BOGDANKA S.A. owned 5 powered panel complexes, including 3 coal-cutting machine complexes and 2 coal-ploughing complexes. The principal machinery that these complexes consist of and their basic parameters are listed in Table 2.

Table 2 Basic equipment of panels as used in 2012.

Equipment element	**Complex no.**				
	I of 1997	**II of 2001**	**III of 2005**	**IV of 2010**	**V of 2012**
Panel roof support					
- type	Glinik 10/23 POz	Glinik 15/32 POz after modernisation Glinik 17/33,5 Poz	Glinik 12/27 POz	Bucyrus 9.5/20	Caterpillar 9.5/20
- section's support capacity	0.8 MPa	1.0 MPa	0.9 MPa	0.9 MPa	0.9 MPa

Panel conveyor					
- type	PF-4/932	JOY AFC	JOY AFC	PF 4/1032	PF 4/1032
- driving power	3×400 kW	3×500 kW	3×500 kW	2×800 kW	2×800 kW
Panel winning machine					
- type (swath)	Longwall coal-cutting machine JOY 4LS3 (0.8 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Longwall coal-cutting machine JOY 4LS8 (1.0 m)	Block plane GH 1600-1 (-)	Block plane GH 1600-1 (-)
Complex location in 2012					
- seam	385/2	382	382	385/2	385/2
- panel	4/IV/385, 6/IV/385	2/II, 3/II	13/II	7/VII/385	2/VI/385
- excavating field	Bogdanka	Nadrybie	Bogdanka	Stefanów	Nadrybie

In 2012 **Complex I** operated in panels 4/IV/385 and 6/IV/385. Since 1997 to the end of 2012, the total length of the panels excavated by that Complex in fields V and IV of the 385/2 seam stood at 22.6 km, while the total gross output amounted to approximately 23.8 million tonnes.

In 2012 **Complex II** operated in panels 2/II and 3/II in seam 382 in Nadrybie. From 2002 until the end of the reporting year this Complex excavated panels in Bogdanka and Nadrybie fields with the total length of 18.8 km, with the output of excavated material reaching 25.3 million tonnes.

In 2012 **Complex III** (purchased in 2005) operated in panel 13/II in seam 382. Since 2005 to the end of 2012, the total gross output of Complex III in seams 385/2 and 382 stood at 18.6 million tonnes in the panels with an aggregate length of approximately 14.8 km.

In the reporting year 2012 **Complex IV (coal-ploughing Bogdanka 1)** continued to operate in panel 7/VII/385 in the Stefanów Field. By the end of 2012 the total gross output of the Complex in panels 1/VI/385 and 7/VII/385 amounted to 5.7 million tonnes, at total panel length of 6.2 km.

Complex V (coal-ploughing Bogdanka 2) The encouraging results of the introduction of the first coal-ploughing complex in 2010 led to further development of coal-ploughing technology at Lubelski Węgiel BOGDANKA S.A. In the reporting year 2012, following a tender procedure, a the II coal-ploughing Complex was ppurchased, which began excavating panel 2/VI/385 in October. By the end of 2012, this Complex reached gross output amounting to approx. 320,000 tonnes at total panel length of approx. 320 m.

Preparatory workings are drilled mechanically using heading coal-cutting machines class AM-75. In 2012, the mine owned five heading coal-cutting machines: four AM-75s, and one coal-cutting machine MR-340X.

Within the system employed, the main gates are drilled by preparatory work teams, and panels are strengthened or liquidated by excavating teams. Some mining works are carried out by external specialised companies at the mine's request

In 2012, 23.2 km of roadway workings were made, including about 11.1 km by outsourced companies.

For the purposes of transporting materials in the mine's underground workings, a transport system of combustion slackline cableways is used. This system makes it also possible to transport the crew into the Mine's more remote areas.

2.6. Licences and permits

Mining activities in the area of economic scale hard coal mineral excavation must be compliant with Geological and Mining Law.

In connection with its requirements, the Company holds:

1. The right to use geological information concerning the BOGDANKA hard coal deposit, pursuant to Agreement No. 266/IG/2006 (982/G/2006) of 8 December 2006, signed with the State Treasury – Ministry of the Environment.

2. Geological documentation supplemented by the Attachment no. 3 for the BOGDANKA hard coal deposit in the new "Puchaczów V" mining area, which was approved with no reservations by the Ministry of the Environment (letter ref. no. DGkzk-479-57/7755/9743/07/EZD of 13 November 2007).
3. A project to manage the BOGDANKA hard coal deposit in the new extended "Puchaczów V" mining area, which enjoyed a favourable opinion issued by the Director of the District Mining Authority in Lublin (opinion no. L.dz. LUB-5350/41/07/08/JD of 11 February 2008).
4. License to excavate hard coal from the BOGDANKA deposit (seams 385, 385/2, 389, 391) covered by the "Puchaczów V" mining area, issued by the Minister of the Environment no. 5/2009 of 6 April 2009. The license has been granted until 31 December 2031.
5. Agreement upon establishing mining usage to excavate hard coal from the BOGDANKA deposit concluded on 6 April 2009 between the State Treasury – Ministry of the Environment and Lubelski Węgiel BOGDANKA S.A.
6. The Operational Plan approved by the Director of the District Mining Authority in Lublin for its basic part by force of his decision of 30 December 1994 (L.dz. 7/74/213/94/MM). Its basic part will be in force over the license's validity period. Its detailed part that covers years 2007 ÷ 2009 was approved by the Director of OUG [District Mining Authority] in Lublin by force of his Decision of 6 November 2006 (no. L.dz. LUB-0234/72/2006/MM), whereas for the period 2010-2012, it was approved on 14 December 2009.

Furthermore, Lubelski Węgiel BOGDANKA S.A. holds the following decisions and permits:

1. Aquatic legal survey - Decision taken by the Lublin Province Governor of 31 December 2007, ref. no.: ŚiR.III.6811/91/07, for special usage of water resources, which covers:

   a) drainage of the Mining Plant Lubelski Węgiel BOGDANKA S.A. in Bogdanka in volumes not exceeding:

   $Q_{dśr}$ = 20 000 m^3/d, Q_{max} = 22 000 m^3/d, Q_{hmax} = 917 m^3/h,

   with deadline until 31 December 2010, and

   $Q_{dśr}$ = 26 700 m^3/d, Q_{max} = 32 000 m^3/d, Q_{hmax} = 1 400 m^3/h,

   with deadline from 1 January 2011 until 31 December 2017.

   b) disposal of unused mining water from the pit water settling tank using the outflow ditch into the RE "Żelazny" stream, which is a tributary of the Świnka river.

2. Permit to generate, recover and neutralise waste, including a description of how to handle this waste – Decision taken by the Lublin Province Governor of 10 September 2004 - no. ŚiR VII. 6620/32/2004 – valid until 10 September 2014, as amended.

3. Integrated permit no. PZ 17/2006 for the Construction Ceramics Plant installations and waste dump – Decision taken by the Lublin Province Governor of 29 December 2006, valid until 28 December 2016.

4. Integrated permit – Decision no. PZ 21/2009 for the Construction Ceramics Plant installation and waste dump No. RŚ.V.MJ.7624/3/09 of 6 July 2009, which altered Decision no. PZ 17/2006 in the area of the waste dump installation, valid until 1 May 2012.

5. Integrated permit – Decision No. PZ 7/2011 of 4 May 2011, Ref. RŚ.V.MJ.7624/3/09 for the Construction Ceramics Plant installations and waste disposal site, issued on behalf of the Lublin Province Governor by the Director of the Department of Agriculture and Environment, amending integrated permit No. 17/2006 of 29 December 2006 and permit No. 21/2009 of 6 July 2009. This permit remains effective:

   - in the part concerning the use of the mining waste disposal site – until 1 May 2012,
   - in the part concerning the use of construction ceramics manufacturing installations – until 28 December 2016;

6. Permit received from OUG [District Mining Authority] in Lublin of 30 March 1993, no. L.dz.5/512/1/93/AG to conduct mining / building works connected with mining waste dump extension.

7. Permit to take part in the EU's CO_2 emissions trading scheme for ZCB EKOKLINKIER of 28 March 2006 (L.dz. ŚiR.V.66100/14/20060).
8. Telecommunications Permit No. 74/2004/Z of 27.07.2004 (DRT-WZZ-6080-31/03) to exploit stationary public telephone network – valid for 25 years.

At the end of 2012 LW BOGDANKA's recoverable reserves (i.e. deposits whose extraction is economically feasible while taking into account mining losses) stood at 237 million tonnes, with the mine's life expectancy until 2031. In Q3 2011 the Company launched a procedure to purchase the rights to geological data concerning K – 3 and K – 6, K – 7 deposits. The cost of geological data for these areas was estimated and an application was submitted to the Minister of the Environment to acquire the rights to geological data against payment, and an agreement was concluded with the Minister of the Environment for using the above information in exchange for a fee. Additions for documentation of hard coal seams "K-3" and "K-6, K-7" were developed. Currently, a procedure connected with their approval is pending. After approval of the abovementioned documents, the Company shall put forward an application for granting licence for extraction of hard coal from areas "K-3" and "K-6, K-7".

3. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF LW BOGDANKA S.A. CONCLUDED IN 2012 AND FOLLOWING THE BALANCE SHEET DATE INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS, INSURANCE AGREEMENTS AND COOPERATION AGREEMENTS WHICH ARE KNOWN TO LW BOGDANKA S.A.

The Company has no information about significant agreements concluded in 2012 between the shareholders. All significant agreements concluded by LW BOGDANKA S.A. in 2012 and after the balance sheet date are described below.

3.1. Trade agreements

3.1.1. 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.

3.1.2. 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.

3.1.3. 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.

3.1.4. 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.

3.1.5. 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.

3.1.6. 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.

3.1.7. 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.

3.1.8. 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.

3.1.9. 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.

3.2. 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.

3.3. 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.

3.3.1. 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.

3.4. 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 Company's Financial Statements, note 32.

4. ANALYSIS AND INFORMATION ABOUT BASIC ECONOMIC AND FINANCIAL DATA DISCLOSED IN THE ANNUAL SEPARATE FINANCIAL STATEMENTS OF LW BOGDANKA FOR FOUR QUARTERS OF 2012, I.E. FROM 1 JANUARY 2012 TO 31 DECEMBER 2012.

4.1. Basis of preparation of the Annual Separate Financial Statements

The Company 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 separate 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.

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

4.2. Selected financial information

Table 3 Selected financial information of LW BOGDANKA SA [PLN '000]

Item	Q4 2012	Q4 2011	Change [%]	4 Qs 2012	4 Qs 2011	Change [%]
Revenue on sales	442,481	434,039	1,94%	1,830,595	1,289,670	41.94%
Gross profit	74,282	199,468	-62,76%	500,522	380,027	31.71%
EBITDA	86,679	228,513	-62,07%	652,169	445,943	46.24%
EBIT (Operating profit)	18,451	163,186	-88,69%	355,727	264,504	34.49%
Profit before taxation	16,011	161,559	-90,09%	354,916	269,255	31.81%
Net profit for the financial year	11,836	132,067	-91,04%	287,027	218,978	31.08%
Operating cash flow	118,470	70,837	67,24%	656,133	306,652	113.97%
Investing cash flow	-208,623	-168,742	23,63%	-601,175	-718,950	-16.38%
Financing cash flow	-3,211	100,000	-103,21%	-39,261	43,381	-190.50%

Table 4 Selected financial information of LW BOGDANKA SA continued [PLN '000]

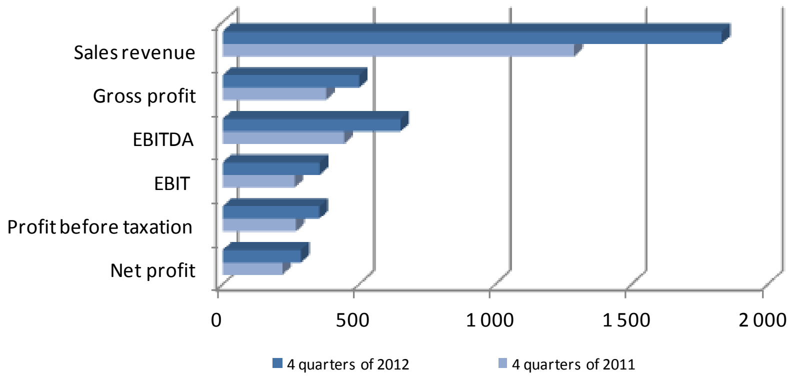
Item	31 Dec. 2012	31 Dec. 2011	Change (2012/2011) [%]
Total assets	3,465,021	3,060,843	13.20%
Fixed assets	3,082,760	2,696,269	14.33%

Current assets	382,261	364,574	4.85%
Shareholders' equity	2,280,211	2,129,238	7.09%
Provisions and liabilities	1,184,810	931,605	27.18%

The financial statements prepared for the period from 1 January 2012 to 31 December 2012 show that the Lubelski Węgiel BOGDANKA S.A.'s revenue on sales was PLN 1,830,595,000, which is an increase of 41.94%, i.e. by PLN 540,925,000 as compared to same period of the previous year. In the very fourth quarter of 2012 the Company generated revenue of PLN 442,481,000, i.e. higher by 1.94% than in the same period of the previous year.

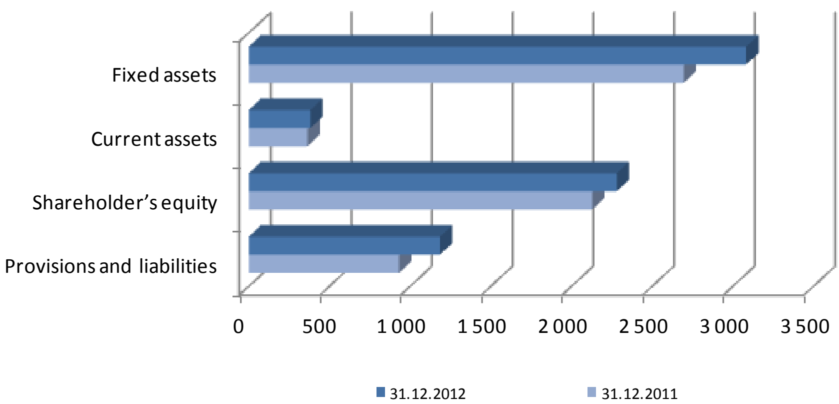
For 12 months of 2012, the Company noted an increase in the operating profit from PLN 264,504,000 to PLN 355,727,000 (+34.49% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) was PLN 652,169,000 for the period from 1 January 2012 to 31 December 2012 as compared to PLN 445,943,000 for the same period of 2011. The increase in the operating profit is a consequence of higher nominal increase in revenue (in the entire 2012 extraction was carried out in the Stefanów Field) relative to costs of products, goods and materials sold.

Analysis of the separate statement of comprehensive income (PLN million)



The net profit for four quarters of 2012 was PLN 287,027,000 compared to PLN 218,978,000 for the same period of 2011, which means an increase of 31.08%, i.e. by PLN 68,049,000. The net result for the fourth quarter was PLN 11,836,000 compared to PLN 132,067,000 for the fourth quarter of 2011 (decrease of 91.04%).

Analysis of the statement of financial position (PLN million)



The Company's separate statement of financial position as at 31 December 2012 shows an increase in the balance-sheet total to PLN 3,465,021,000, i.e. by PLN 404,178,000, compared to the figure as at 31 December 2011. The value of fixed assets went up from PLN 2,696,269,000 (31 December 2011) to PLN 3,082,760,000 (31

December 2012). This increase (+14.33%) is the result of the Company's 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 364,574,000 to PLN 382,261,000 (PLN +17,687,000, i.e. +4.85%) – mostly as a consequence of an increase in cash held by the Company and the gathered reserves. Further, trade debtors and other receivables wend down.

On the shareholders' equity & liabilities side, shareholders' equity went up to PLN 2,280,211,000 (i.e. by 7.09%). 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 Company went up to PLN 253,205,000, and the change consisted in:

- an increase in long-term liabilities by PLN 143,928,000 (to PLN 771,443,000),
- an increase in short-term liabilities by PLN 109,277,000 (to PLN 413,367,000).

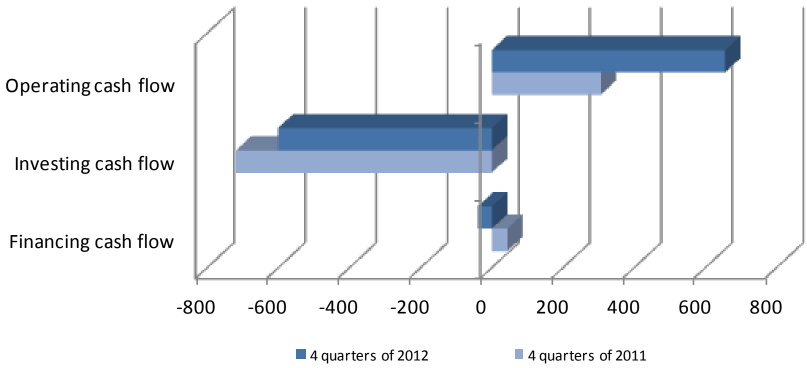
Under long-term liabilities, loans and borrowings went up by PLN 80,000,000 – in connection with the drawing two last tranches of short-term working loan in the first half of 2012 (advanced in the aggregate amount of PLN 200,000,000 by PEKAO SA) and reclassifying its portion from a long-term into a short-term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

Under short-term liabilities, trade creditors and other liabilities grew by PLN 75,661,000, 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, 65.81% and 69.56%.

During four quarters of 2012 the Company financed its operations with operating cash flows and cash funds from the working loan. The value of net operating cash flow grew from PLN 306,652,000 (4 quarters of 2011) to PLN 656,133,000 (4 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 -601,175,000 while in the same period of 2011 the figure was PLN 718,950,000.

In the period from January to December 2012 the Company generated negative net cash financing flows amounting to PLN -39,261,000 (in the period under analysis two tranches of a short-term working loan were drawn and a dividend was paid out), whereas a year ago the Company 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 86,094,000 and was higher by PLN 15,697,00 than the same data for the previous year.

4.3. Information on current and forecast economic and financial position of LW BOGDANKA S.A. with assessment of financial resources management

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

As at the date of drawing the information, the Company sees no threats as to its ability to settle contracted liabilities in future. LW BOGDANKA is continuously conducting an on-going analysis of financial resources held and planned to be held in order to minimise a risk of losing liquidity even for a short moment.

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 make new excavations available, so as to obtain the continuity of extraction in next years. Next stages of the major investment programme of the Company are pursued, in order to achieve the assumed share issue objectives.

4.3.1. Coal production and sales

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

Table 5 Production of LW BOGDANKA 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 6 Sale of coal of LW BOGDANKA 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 Company 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)

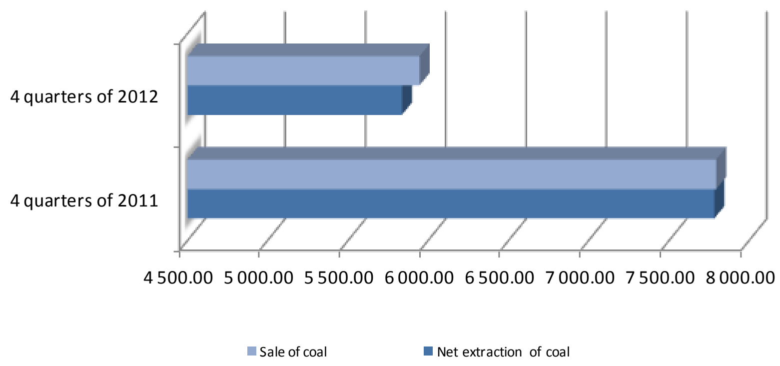


Table 1 Structure of sales of the commercial coal by LW BOGDANKA for 4Qs 2012 and 4Qs 2011

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 Company 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.

4.3.1.1. Production potential

The mining area exploited by Lubelski Węgiel BOGDANKA S.A. is divided into three fields: the Bogdanka, Nadrybie and Stefanów Fields. Shafts of the mine are located in the Bogdanka Field, the Nadrybie Field and the Stefanów Field, while the lifting shafts are located in the Bogdanka Field and the Stefanów Field.

On 6 April 2009, LW BOGDANKA S.A. obtained a concession to mine hard coal from the Bogdanka deposits being part of the Puchaczów V mining area (seams 382, 385/2, 389 and 391), with an area of 73.3 km^2, located in the districts of Cyców, Ludwin and Puchaczów in the Lublin Province.

Table 8 Deposit reserves of hard coal in BOGDANKA updated as at 31 December 2012 [million tonnes]

Reserves [mln tonnes]	**Year**			**Difference**
	2010	**2011**	**2012**	**2012-2011**
Total balance	811.1	805.9	798.9	-7.0
Balance*	451.2	446.0	439.0	-7.0
Industrial	325.7	320.5	313.5	-7.0
Recoverable	247.0	242.9	237.3	-5.6

*Balance reserves (covered by a licence)

4.3.1.2. Stocks

The balance of stock of commercial coal held by the Company as at 31 December 2012 was 18,327.57 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 above level of stock equals less than one-day coal production of the Company.

Table 9 Stock of coal [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%

4.3.2. 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.

In 2012, the supplies for the Company from any of the Company's suppliers, did not achieve the level exceeding 10% of the total revenue on sales.

Main supplier of the material for the Company's basic production in 2012 was HUTA ŁABĘDY S.A. - whose supplies included gallery support frames and construction elements for gallery casings (crossings, shackles, special gates).

4.3.3. Revenue on sales and key customers

During four quarters of 2012, LW BOGDANKA's revenue on sales was at a level of PLN 1,830,595,000 – it was higher by PLN 540,925,000 than revenue obtained in the same period of 2011.

Lubelski Węgiel BOGDANKA S.A. has 4 sources of revenue: sales of coal, sales of ceramics, other activities, and sales of goods and materials.

The main source of revenue on sales for LW BOGDANKA 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 97.05% of the Company's revenue on sales (94.96% 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 (+31.1%), with only slightly higher average annual unit sales price. In the financial statements published by the Company, 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 separate 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 Company'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 1.87% of the total revenue in the period from 1 January 2012 to 31 December 2012, whereas in the previous year this ratio was 2.50% - significant items in that group included revenue connected with coal transport services provided for one of the customers and revenue on lease of fixed assets.

Revenue on sales of goods and materials decreased in the analysed period by 45.65%, i.e. by PLN 10,962,000. In 2012, this amount included primarily revenue on sales of scrap, while in 2011 it included also power coal bought by the Company for resale to one of the customers.

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

Table 10 Dynamics of changes in product range with respect to revenue on sales of LW BOGDANKA [PLN '000]

Item	4 Qs 2012	4 Qs 2011	Change 2012/2011 [%]
Sales of coal	1,776,524	1,224,690	45.06%
Sales of ceramics	6,749	8,678	-22.23%
Other activities	34,271	32,289	6.14%
Sales of goods and materials	13,051	24,013	-45.65%
Total revenue on sales	**1,830,595**	**1,289,670**	**41.94%**

Table 11 Structure by type of revenue on sales of LW BOGDANKA [PLN '000]

Item	4 Qs 2012	Share [%]	4 Qs 2011	Share [%]
Sales of coal	1,776,524	97.05%	1,224,690	94.96%
Sales of ceramics	6,749	0.37%	8,678	0.67%
Other activities	34,271	1.87%	32,289	2.50%
Sales of goods and materials	13,051	0.71%	24,013	1.87%
Total revenue on sales	**1,830,595**	**100.00%**	**1,289,670**	**100.00%**

LW BOGDANKA 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 12 Geographical structure of revenue on sales of LW BOGDANKA [PLN '000]

Item	4 Qs 2012	Share [%]	4 Qs 2011	Share [%]
Domestic sales	1,829,800	99.96%	1,289,191	99.96%
Export sales	795	0.04%	479	0.04%
Total revenue on sales	**1,830,595**	**100.00%**	**1,289,670**	**100.00%**

Key suppliers for LW Bogdanka 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). In the period from 1 January to 31 December 2012 the value of trade with individual suppliers did not exceed 10% of the Company revenue.

4.3.4. Statement of the Company's comprehensive income

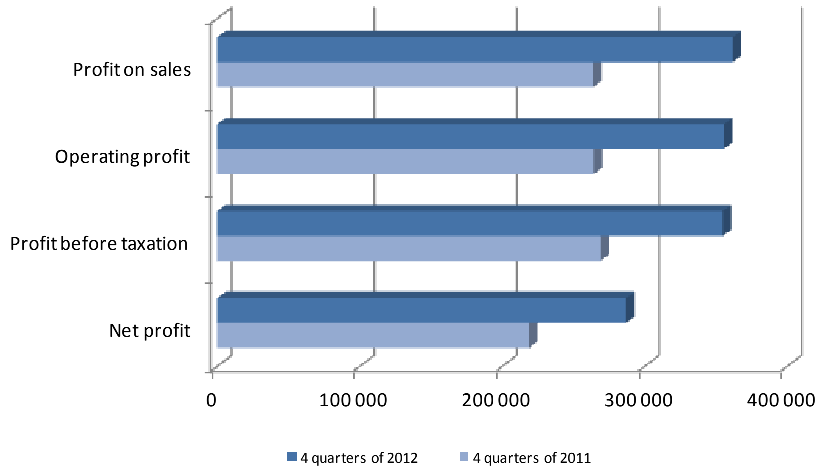
In the period from 1 January 2012 to 31 December 2012, the revenue on sales of LW BOGDANKA went up compared to the same period of the previous year by 41.94% (to a level of PLN 1,830,595,000). In the same period, costs of the Company (costs of products, goods and materials sold together with selling and administrative costs) increased by 43.19% to a level of PLN 1,468,598,000. Such changes in revenue and costs resulted in the profit on sales being higher by 37.08%, i.e. 361,997,000 for 12 months of 2012 as compared to PLN 264,071,000 for the same period of 2011.

Table 13 Selected items of the statement of comprehensive income of LW BOGDANKA [PLN '000]

Item	4 Qs 2012	4 Qs 2011	Change (2012/2011) [%]

Revenue on sales	1,830,595	1,289,670	41.94%
Cost of products, goods and materials sold, cost of sales, administrative expenses	1,468,598	1,025,599	43.19%
Profit on sales	**361,997**	**264,071**	**37.08%**
Other income	1,494	5,083	-70.61%
Other expenses	1,822	2,434	-25.14%
Net operating profit/loss	**361,669**	**266,720**	**35.60%**
Other net profit/loss	-5,942	-2,216	168.14%
Operating profit	**355,727**	**264,504**	**34.49%**
Financial income	10,003	11,012	-9.16%
Financial expenses	10,814	6,261	72.72%
Profit before taxation	**354,916**	**269,255**	**31.81%**
Income tax	67,889	50,277	35.03%
Net profit for the financial year	**287,027**	**218,978**	**31.08%**

Analysis of separate statement on comprehensive income at individual levels of the Company's operations in PLN '000



<u>Other income</u>

For 12 months of 2012, other operating income amounted to PLN 1,494,000 compared to PLN 5,083,000 for the same period of the previous year – this means a decrease of 70.61%. The amount of PLN 1,494,000 includes recorded revenue arising from non-recurring events (primarily calculated liquidated damages and released special purpose provisions).

<u>Other expenses and other net profits/losses</u>

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 the analysed period of 2012, other net profits/losses amounted to PLN -5,942,000 compared to PLN -2,216,000 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 355,727,000, which is higher than that for the previous year by 34.49%, i.e. by PLN 91,223,000.

<u>Financial income</u>

Financial income for 12 months of 2012 amounted to PLN 10,003,000 compared to PLN 11,012,000 a year ago (decrease of 9.16%). The change in financial income is a consequence of lower annual-average level of cash in the Company.

Financial expenses

In the analysed period of 2012, financial expenses amounted to PLN 10,814,000 compared to PLN 6,261,000 a year ago (increase by PLN 4,553,000, i.e. of 72.72%). In 2012 the value of interest-bearing debt of the Company 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 31.81% – profit before taxation for four quarters of 2012 amounted to PLN 354,916,000 compared to PLN 269,255,00 for four quarters of 2011.

Mandatory decrease of the result by Lubelski Węgiel BOGDANKA S.A. 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 287,027,000 as compared to PLN 218,978,00 for the same period in 2011 – year-to-year net profit of the Company went up by 31.08%.

4.3.5. Profitability

Table 14 Profitability ratios of LW BOGDANKA

Item	4 Qs 2012	4 Qs 2011	Change [p.p.] 2012-2011	Change (2012/2011) [%]
Gross margin on sales	27.34%	29.47%	-2.13	-7.23%
EBITDA	35.63%	34.58%	1.05	3.04%
EBIT	19.43%	20.51%	-1.08	-5.27%
Gross margin	19.39%	20.88%	-1.49	-7.14%
Net margin	15.68%	16.98%	-1.30	-7.66%
Return on Assets (ROA)	8.80%	7.46%	1.34	17.96%
Return on Equity (ROE)	13.02%	10.72%	2.30	21.46%

Gross margin on sales of LW BOGDANKA went down from 29.47% (4 quarters 2011) to 27.34% (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 19.43%, which means a decrease by 1.08 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 34.58% (4 quarters 2011) to 35.63% (4 quarters 2012). The change in value of the ratio was caused by depreciation going up from PLN 181,439,000 (2011) to PLN 296,442,000 (2012).

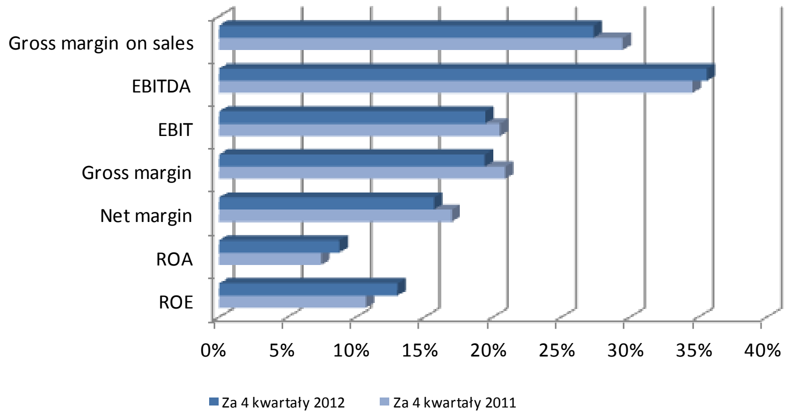
Gross margin for four quarters of 2012 amounted to 19.39% and was lower by 1.49 p.p. than margin for four quarters of 2011.

Net margin on operations conducted by Lubelski Węgiel BOGDANKA S.A. for four quarters of 2012 amounted to 15.68% as compared to 16.98% for four quarters of 2011.

The increase in return on assets (from 7.46% to 8.80%) resulted from higher net profit relative to the dynamics of the average level of the Company's assets.

Similarly as in the case of return on assets, the increase in return on equity resulted from higher net profit (by 31.08%) with equity going up (only by 7.09%) at the same time.

Profitability analysis



4.4. Assessment of factors and untypical events affecting the operating profit for the financial year including specification of the extent to which they may affect the results

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

4.5. Differences between financial results disclosed in the annual report and the published 2012 result forecasts

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

4.6. Capitals, funds and sources of capital of LW BOGDANKA S.A.

As at 31 December 2012, the Company's shareholders' equity amounted to PLN 2,280,210,560.

The shareholders' equity is comprised of:

- Ordinary shares	PLN 301,158,070
- Other capitals	PLN 1,349,255,010
including:	
- Supplementary capital	PLN 548,654,950
- Reserve capitals	PLN 800,600,060
- Retained profits	PLN 629,797,480
including:	
- Revaluation capital reserve	PLN 66,023,410
- Other capitals – retained profits brought forward	PLN 276,747,260
- Net profit	PLN 287,026,810

The value of the basic capital as at the end of 2012 amounted to PLN 301,158,070.

Supplementary capital:

In the course of transformation of the state-stock company, the supplementary capital was calculated at the level representing a difference between the sum of: founding and corporate funds and the share capital.

As at 31 December 2012, the Company's supplementary capital amounted to PLN 548,654,950. As at 31 December 2012, the supplementary capital represented 24.06% of the share capital.

Revaluation capital reserve:

As at 31 December 2012, the revaluation capital reserve amounted to PLN 66,023,410. In relation to 2011 the revaluation capital reserve did not change.

Other capital reserves:

As at 31 December 2012, the Company's other capitals amounted to PLN 800,600,060. In 2012 they increased by 11.6%.

Social Benefits Fund:

Company Social Benefits Fund is made annually from the basic write-off charged to the Company's operating expenses. In 2012 the social fund increased by PLN 6,500,000 as a result of an additional write-off with a proviso that in the event of selling a summer holiday centre in Łazy, in the year in which the net amount on account of its sale is contributed to the social benefit fund, the basic write-off will decrease by the amount equal to the amount by which the fund increased as a result of the sale of the summer centre. However, the amount by which the basic write-off will decrease shall not be higher than PLN 7,500,000. The fund also increased by other income from partial payments from the employees for social activity and interests on funds on a bank account for loans granted from the Social Benefit Fund for housing purposes. This is a special purpose account, used in accordance with the Act on the Company Social Benefits Fund of 4 March 1994 (Dz.U. No. 70, item 335 of 1996, as amended) and the rules adopted by the Management Board. In relation to 2012, the fund increased by PLN 2,506,100 and as at 31 December 2012 it amounted to PLN 8,953,860.

Mine Closure Fund

In compliance with Article 26c of the Geological and Mining Law of 4 February 1994 (uniform text Dz.U. of 2005 No. 228, item 1947, as amended), and the Ordinance of the Minister of Economy of 24 June 2002 on detailed rules of creating and functioning the mine closure fund (Dz. U. No. 108 item 951), Lubelski Węgiel BOGDANKA S.A. gathers funds for covering the costs of a liquidation of a mining plant, in a separate bank account. As at 31 December 2012 the value of those funds amounted to PLN 68,031,250. Increase in funds at the bank account results from a payment made from mandatory annual write–offs of PLN 6,014,670 and bank interest on funds deposited in the account of PLN 3,728,090.
Future deposits related to the liquidation of the mining plant are covered with a provision disclosed in the statement of comprehensive income. The amounts of provisions are recognised in the present value of expenditures which are expected to be needed to discharge a given obligation.

4.7. 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 19 of the Financial Statements of LW BOGDANKA.

4.8. Debt and financing structure of LW BOGDANKA, including information about agreements on loans and borrowings concluded and terminated in the given financial year, with stating at least the amount, type, interest rate, currency and maturity of such loans and borrowings.

In the period from 1 January to 31 December 2012, LW Bogdanka did not obtain any new financing in the form of loans or borrowings. In the first half of 2012 two last tranches, each of PLN 50 million, were drawn (as scheduled) from the working loan taken out in 2011 with PEKAO S.A.

As at the moment of drafting this information, there are no threats as to the Company's ability to meet its future liabilities. The analyses of financial resources – held and planned – are carried out on an ongoing basis.

Current debt of the Company is PLN 441 million, and the long-term portion of debt is PLN 421 million (95.46%), while the short-term loans – PLN 20 million.

Table 15 Debt ratios of LW BOGDANKA

Item	31 Dec. 2012	31 Dec. 2011	Change (2012/2011) [%]
Overall debt ratio	34.19%	30.44%	12.32%
Debt to equity ratio	51.96%	43.75%	18.77%
Fixed capital to fixed assets ratio	96.08%	99.39%	-3.33%
Short-term debt ratio	11.93%	9.93%	20.14%
Long-term debt ratio	22.26%	20.50%	8.59%

As at 31 December 2012, the share of liabilities in financing the operations of LW BOGDANKA, measured with the overall debt ratio, was 34.19% and respectively 30.44% as at 31 December 2011. In the period covered by the separate financial statements for four quarters of 2012 the debts of LW BOGDANKA 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 43.75% (as at 31 December 2011) to 51.96% (as at 31 December 2012) which is a consequence of shareholders' equity being higher by PLN 150,973,000, with the Company's total liabilities going up by PLN 253,205,000 at the same time.

The fixed capital to fixed assets ratio is below 100%. This is caused first of all by an increased value of fixed assets (by PLN 386,491,000 in connection with implementation of the investment programme) and by an increased shareholders' equity by only PLN 150,973,000 (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 investment programme, when the Company will start to use commercially the assets manufactured hitherto.

Table 16 Liquidity ratios of LW BOGDANKA (days)

Item	31 Dec. 2012	31 Dec. 2011	Change (2012/2011) [%]
Current liquidity ratio	1.04	1.36	-23.53%
Quick liquidity ratio	0.89	1.21	-26.45%

In the period covered by the Annual Separate Financial Statements the liquidity ratios of LW BOGDANKA remained at a safe level – the Company 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 and the balance of funds from conducted operating activities.

Table 17 Turnover ratios of LW BOGDANKA (days)

Item	31 Dec. 2012	31 Dec. 2011	Change (2012/2011) [%]
Stock turnover	13.2	20.1	-34.33%
Trade debtors collection rate*	48.7	52.8	-7.77%
Trade creditors payment rate**	74.0	93.6	-20.94%
Operating cycle (1+2)	61.9	72.9	-15.09%
Cash conversion cycle (4-3)	-12.1	-20.7	-41.55%

*Trade and other debtors

** Trade and other creditors

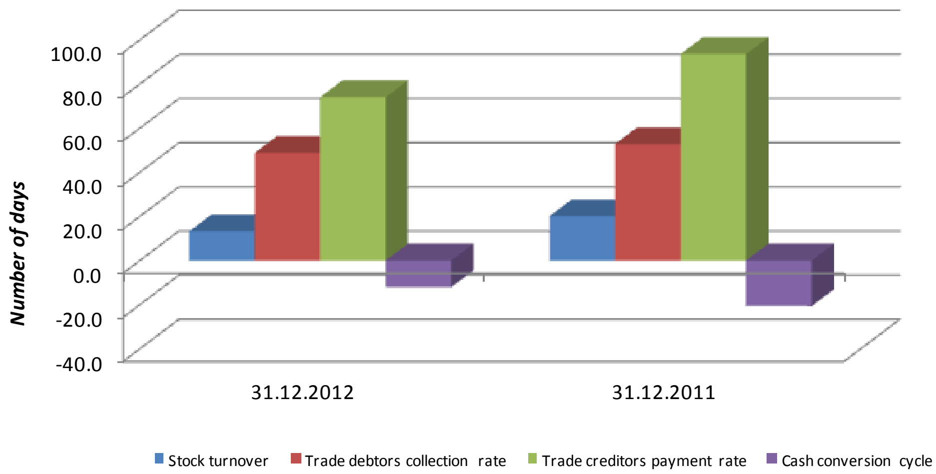
Compared to the rate as at 31 December 2011, the stock turnover rate as at 31 December 2012 fell from 20.1 days to 13.2 days – with the average level of inventories going down (compared to the balance as at 31 December 2011) the cost of products, goods and materials sold went up.

The trade debtors collection rate (calculated on the basis of the balance sheet item "Trade and other debtors") was 48.7 days (as at 31 December 2012) and 52.8 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 61.9 days compared to 72.9 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 93.6 days (as at 31 December 2011) to 74.0 days (as at 31 December 2012).

Cash conversion cycle analysis



The trends described above resulted in the cash conversion cycle of -12.1 days as at 31 December 2012 compared to -20.7 days as at 31 December 2011. The negative value of the cash conversion cycle means that Lubelski Węgiel BOGDANKA S.A. makes use of non-interest bearing debt.

Banks providing services to the Company

The main current account of BOGDANKA S.A. is maintained by Bank PEKAO S.A. Grupa PEKAO S.A. III O/ Lublin, No. 88 1240 2382 1111 0000 3893 3280.

Auxiliary accounts and deposit accounts are maintained by:

- BRE Bank S.A. Lublin Branch,
- Powszechna Kasa Oszczędności Bank Polski S.A. Regional Corporate Branch, Corporate Centre in Lublin,
- Bank Zachodni WBK S.A. in Lublin,
- Bank Ochrony Środowiska S.A. Lublin Branch,
- Bank Millennium S.A. Regional Branch in Lublin.

Agreements concerning the Company'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:

1) 2013 – PLN 20,000,000,
2) 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.

4.9. Information on loans granted in the current financial year, with special regard for loans granted to the issuer's related undertakings, with stating at least the amounts, types, interest rate, currency and maturity of such loans

In 2012 Lubelski Węgiel BOGDANKA S.A. did not grant any loans.

In 2012 Lubelski Węgiel BOGDANKA S.A. made no releases from debt.

In 2012 Lubelski Węgiel BOGDANKA S.A. did not contract or grant any loans or terminate any agreements concerning borrowings.

4.10. 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).

4.11. Information on financial instruments

During four quarters 2012 the Company 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 Company 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 Company 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.

4.12. Costs by type and function

This section presents costs of LW BOGDANKA S.A. by type and by function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, in accordance with the formula presented, reflect the use of a given means or factor of production (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (trade coal) or whether they have been used by the Company to finance the construction of a given facility with its own funds and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as fixed assets, constituting depreciation costs of the period in question.

4.12.1. Costs by type

During 12 months of 2012, LW BOGDANKA S.A.'s costs by type amounted to PLN 1,735,460,000 compared to PLN 1,395,075,000 in the same period of the previous year, which means that the costs increased by 24.40% (PLN 340,385,000). The above nominal increase in costs was largely the result of dynamic increase in depreciation/amortisation costs, as well as increase in costs of external services, employee benefits and materials and energy consumption. The result of an adjustment of costs by type by change in products and accruals and deferrals, the value of own work and the costs of goods and materials sold, will give own cost of sales for 2012 amounting to PLN 1,468,598,000 as compared to PLN 1,025,599,000 incurred in the previous year (increase by 43.19%, or PLN 340,385,000).

Table 18 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	12 months of 2012	12 months of 2011	Change %	Change PLN '000
Depreciation and amortisation	296,442	181,439	63.38%	115,003
Materials and energy consumption	451,495	397,856	13.48%	53,639
External services	432,782	348,692	24.12%	84,090
Employee benefits	491,008	416,671	17.84%	74,337
Entertainment and advertising expenses	9,121	9,493	-3.92%	-372
Taxes, fees and charges	31,264	22,828	36.95%	8,436
Other expenses	23,348	18,096	29.02%	5,252
TOTAL COSTS BY TYPE	**1,735,460**	**1,395,075**	**24.40%**	**340,385**
Change in products*	-8,689	15,443	-156.26%	-24,132
Cost of operating activities	**1,726,771**	**1,410,518**	**22.42%**	**316,253**
Activities for the Company's own needs	261,675	360,677	-27.45%	-99,002
Release of the provisions for real property tax	*9,502*	*46,552*	-79.59%	*-37,050*
Cost of goods and materials sold	13,004	22,310	-41.71%	-9,306
The cost of sales	**1,468,598**	**1,025,599**	**43.19%**	**442,999**

** - comprises change in products manufactured by the Company, i.e. coal, bricks and wall blocks.*

** - comprises such items of the 'deferrals and accrued income' as: Zakładowy Fundusz Świadczeń Socjalnych (ZFŚS, the Company Social Benefits Fund), insurance of persons and foods, costs of panel strengthening.*

** - comprises such positions of accruals as: additional annual award (so called "fourteen") and an award on the occasion of miner's day (St. Barbara Day).*

In the analysis of the amortisation/depreciation costs, it should be pointed that their growth (by over 64%) is principally resulting from a growth in value of fixed assets subject to natural depreciation (mining excavations) and to depreciation with a straight-line method applied to other fixed assets.

The higher value of outsourced services results primarily from the costs of drilling, mining and similar works. The recorded increase in in the extraction of coal and commercial coal translated into larger volume of stone subject to utilisation, which also caused an increase in value of transport and equipment-related services in connection thereto.

The increase in employee benefits is a consequence of both a higher number of staff from 4,184 at the end of December 2011 to 4,587 at the end of December 2012 (increase by nearly 10%), as well as the signed agreement on increasing the average monthly pay at the Company by 5.5% in 2012.

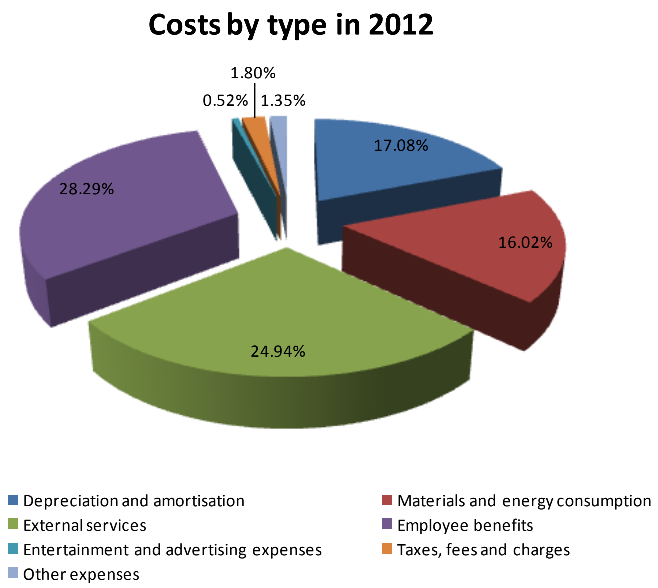
When analysing the costs of materials and energy consumption, it should be noted that the increase by 13.48% (nominal increase of PLN 53,639,000) was caused by an increase in electricity costs by over 23% (including in connection with the launch of production in the Stefanów Field – 2012 was the first full year of mining from that field), and by an increase of about 11% in the consumption of materials (the number of existing workings that undergo rebuilding has increased; also, higher costs were incurred in connection with some of the machinery and equipment installed underground – in 2012, the number of mined longwall panels and the number of working devices increased).

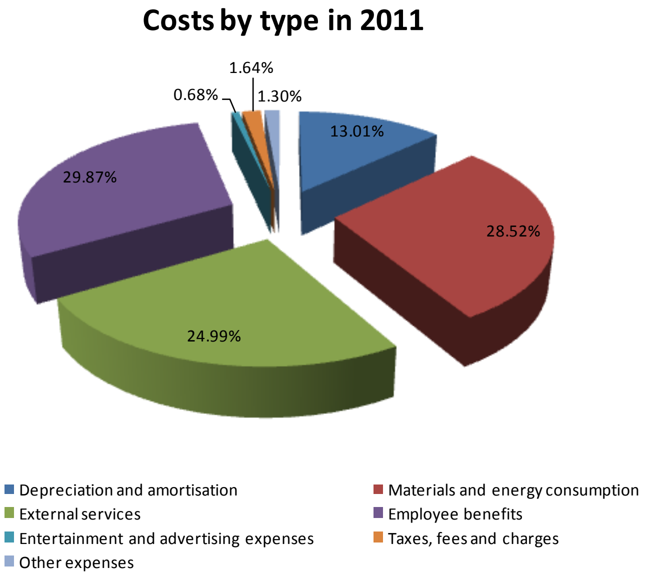
Other costs by type which saw nominal growth year-on-year include taxes, fees and charges (+PLN 8,436,000) and other expenses (+PLN 5,252,000). Entertainment and advertising expenses decreased during the analysed year by PLN 372,000.

The changes presented in the group of costs by type had impact on the change in the structure thereof. In the period analysed, the dominant position, just as a year ago, belongs to employee benefits, however their share dropped from 29.87% in the 12 months of 2011 to 28.29% in the 12 months of 2012, i.e. by 1.58 p.p. The second dominant cost in 2012 was materials and energy consumption (26.02% of costs by type as compared with 28.52% for the 12 months of 2011). The share of external services costs remained almost unchanged in relationship to total costs, while the share of depreciation and amortisation increased from 13.01% (for 2011) to 17.08% (for 2012).

Table 19 Structure of costs by type at LW BOGDANKA S.A.

Item	12 months of 2012	12 months of 2011	Change %
Depreciation and amortisation	17.08%	13.01%	31.28%
Materials and energy consumption	26.02%	28.52%	-8.77%
External services	24.94%	24.99%	-0.20%
Employee benefits	28.29%	29.87%	-5.29%
Entertainment and advertising expenses	0.52%	0.68%	-23.53%
Taxes, fees and charges	1.80%	1.64%	9.76%
Other expenses	1.35%	1.29%	4.65%
TOTAL	**100.00%**	**100.00%**	





4.12.2. Costs by function

In the period from 1 January to 31 December 2012 Lubelski Węgiel BOGDANKA S.A.'s cost of sales amounted to PLN 1,468,598,000 and was higher than in the same period of 2011 by PLN 442,999,000, i.e. by 43.19%. An analysis of the individual components of the cost of sales shows that the increase was mainly a result of an increase in the cost products, goods and materials sold (+46.22%, i.e. +PLN 420,430,000) which is a consequence of an increase (by 31.1%) in the amount of commercial coal sold and changes in the groups of costs by type described above, as recorded in the period under analysis.

Further, an increase was recorded in administrative costs (+22.65%), which most predominantly was influenced by higher costs of taxes and administrative charges, higher costs of remunerations and related costs (employee costs), and costs related to insurance, maintenance and protection of the Company's assets. The lowest dynamics was shown by selling costs – increase by 13.18%.

Table 20 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	12 months of 2012	12 months of 2011	Change %	Change PLN '000
Cost of products, goods and materials sold	1,330,073	909,643	46.22%	420,430
Selling costs	44,159	39,017	13.18%	5,142
Administrative costs	94,366	76,939	22.65%	17,427
Cost of sales	**1,468,598**	**1,025,599**	**43.19%**	**442,999**

Due to the recorded increase in products, goods and materials sold, the share of this cost group increased in the cost of sales structure with a concurrent reduction in cost groups, i.e. selling costs and administrative costs.

The share of costs of products, goods and materials sold grew from 88.69% within 12 months 2011 to 90.57% within 12 months of 2012. The share of selling costs in the period under analysis fell from 3.80% to 3.01%, and the of the administrative costs – from 7.50% to 6.43%.

Table 21 Structure of costs of LW BOGDANKA S.A. by function

Item	12 months of 2012	12 months of 2011	Change %
Cost of products, goods and materials sold	90.57%	88.69%	2.12 %
Selling costs	3.01%	3.80%	-20.7 %

Administrative costs	6.43%	7.50%	-14.2 %
Cost of sales	**100.00%**	**100.00%**	**x**

4.13. 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.

4.14. Lease and rental agreements in 2012

In 2012 total revenue of LW BOGDANKA S.A. under lease and rental agreements for land, premises, machines and devices amounted to PLN 9,557,000 net.

5. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR LW BOGDANKA S.A.'S OPERATIONS IN 2012

5.1 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) <u>increasing production capacity of the Company by enlarging the Stefanów Field</u>

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) <u>Increase in employment and human resources management</u>

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

5.2 The Company's investments in fixed assets

5.2.1 Investments in 2012 and the plan for 2013

Table 22 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.

5.2.1.1 Plan of investment completion in 2012

Plan 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.

5.2.1.2 Investments completed in 2012

The following works were performed in 2012:

Gr. 1 Development investments

A Technical infrastructure

Construction of excavation and ventilation shaft 2.1

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

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

<u>Construction of buildings in the Stefanów Field –</u> 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.

5.2.1.3 Plans for 2012

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.

5.3 Company's capital expenditure, including those made outside the Group, plus description of their financing methods.

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 plant. 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.

5.4 Development, research and implementation works

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

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.

5.5 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Company

5.5.1 Risk associated with the Company's social, economic and market environment

5.5.1.1 Risk associated with the social and economic situation in Poland and the world

LW BOGDANKA S.A.'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 Company 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 Company 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, LW BOGDANKA S.A. has been consistently achieving positive financial results since 1994. The Company'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.

5.5.1.2 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 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 Company.

5.5.1.3 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 LW BOGDANKA S.A. 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 Company. 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.

5.5.1.4 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 LW BOGDANKA S.A. However, the risk to the Company'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 Company 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 Company 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.

5.5.1.5 Interest rate risk

LW BOGDANKA 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 Company and hence have an adverse effect on the Company'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 Company's assessment, the interest rate risk currently has a limited bearing on the financial standing of LW BOGDANKA S.A. 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 Company's development strategy currently implemented (extension of the Stefanów Field).

5.5.1.6 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 Company's financial situation.

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

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

Currently LW BOGDANKA S.A. 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 19.34% of Company's equity and 12.73% of the balance-sheet total.

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

The operating activities of LW BOGDANKA 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 LW BOGDANKA S.A.'s operating activities or losses relating to property, financial assets and employees or could result in the Company 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 Company 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.

5.5.1.9 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 greenhause 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 LW BOGDANKA, 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.

5.5.1.10 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. LW BOGDANKA 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.

5.5.1.11 Risk of hostile takeover of the Company

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.

5.5.2 Risks directly associated with the Company's operations

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

A material aspect of the operations conducted by the Company 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.

5.5.2.2 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 LW BOGDANKA S.A., and therefore on the financial results achieved by it in the future. The Company 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 Company 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 Company'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.

5.5.2.3 Risks associated with the dismissal of the President of the Management Board

Following the Company's Supervisory Board's decision of 27 September 2012 to dismiss Mr Mirosław Taras from the position of the President of the Management Board, certain events occurred which led to the emergence of new potential risks for the Company. These risks may involve the risk of the Company's image and reputation deteriorating.

The emergence of these risks is linked with the public statements to the media, the fact that a notification of a suspected crime has been submitted, and the fact that legal action against the Company has been taken requesting a court order declaring the Company's Supervisory Board's resolution to dismiss the President of the Company's Management Board null and void.

However, the above situation has not caused any disruption to the Company's operations in its core business areas, i.e. the production and sale of coal, or to the Company's investment process. The risk levels in these areas have not changed and do not exceed the level acceptable to the Company.

5.5.2.4 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 Company'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.

5.5.2.5 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 its ongoing operations and therefore affect its future financial results. 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 LW BOGDANKA 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.

5.5.2.6 Key customer risk

Vast majority of the power coal produced by LW BOGDANKA 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company in 2012 and after the balance sheet date is provided in section 3.1 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

Company regarding allocation of significant volumes of coal originating from increased extraction. The Company 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 LW BOGDANKA. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

5.5.2.7 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, LW BOGDANKA S.A. 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 significantly limited.

5.5.2.8 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 Company'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 Company 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 Company makes transactions solely with those customers whose creditworthiness has been confirmed. For many years the Company 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.

5.5.2.9 Risk of delays in planned investments

LW BOGDANKA 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.

5.5.2.10 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, four trade union organisations operate at the Company associating the total of 63% of the Company's employees. 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 the financial results of LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company 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.

In the Company's opinion, cooperation of the Management Board of LW BOGDANKA with the trade unions operating in the Company has so far been successful. The Company's objectives include continuation of the cooperation between its Management Board and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving LW BOGDANKA's objectives and strategy.

5.5.2.11 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.

5.5.2.12 Risk of the employees of the Company being additionally employed in external entities cooperating with LW Bogdanka

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 LW BOGDANKA.

5.5.2.13 Key supplier risk

The specific nature of LW BOGDANKA operations 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 Company. 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.

LW BOGDANKA S.A., 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, LW BOGDANKA requires that a performance bond is made.

5.5.2.14 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by LW BOGDANKA (particularly those relating to the purchase of specialist equipment and technology), it is 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 Company is taking the following 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.

5.5.3 Financial risk

5.5.3.1 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 Company, cash at hand as at 31 December 2012 amounted to PLN 86,094,000 current liquidity ratio – 1.04, and quick liquidity ratio – 0.89. In 2012 net flows from operating activities generated by LW BOGDANKA were 113.97% higher than in the previous year. Therefore, as at the day of submitting the Report, there is no risk of the Company's insolvency. To avoid any potential risks in future and to mitigate the risk related to the Company'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.

5.5.3.2 Insurance risk

LW BOGDANKA S.A. 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 Company operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in the Company's possession, 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 Company on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Company 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.

5.5.4 Risks associated with environmental protection

5.5.4.1 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.

5.5.4.2 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 LW BOGDANKA have a significant impact on the environment. Given the nature of that impact, the Company 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. As at the date of submitting the Report, the Company'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. LW BOGDANKA was 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. The changes may lead to the necessity of adjusting the Company's 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 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 onging basis, and adjusts its operations accordingly, within the prescribed time limits.

5.5.4.3 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.

5.5.4.4 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.

5.5.5 Risk associated with proceedings and legal environment

5.5.5.1 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 Company's image and goodwill. Tax returns submitted by the Company 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 Company applies various tax optimisation and tax planning methods, consequently limiting to a large extent the impact of such potential adverse events on the Company's operations and financial performance.

5.5.5.2 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.

5.5.5.3 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 Company 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 Company, 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

5.5.5.4 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 Company. 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 Company or if the Mining Law introduces new requirements to be imposed on LW BOGDANKA, it could lead to a deterioration of its financial situation and as a result negatively affect the Company's results and development prospects.

5.5.5.5 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 Company's activity from the perspective of disclosure requirements.

5.5.5.6 Integrated system of enterprise risk management — a summary

Following leading corporate benchmarks with respect to the fulfilment of the best international practices, the Company's obligations and activities supporting corporate governance, in 2011 LW BOGDANKA S.A. introduced the Integrated System of Enterprise Risk Management (ERM). In 2012, an IT (Risk Manager) system was implemented to support the enterprise risk management system, and the basic documents setting out the rules of system functioning, such as policies, procedures, risk register and risk valuation principles, were modified to adapt them to the implemented software. Currently, the risk management system of the Company covers all areas of the business and is aimed at identifying potential risks and opportunities for the enterprise. Risks are identified by Risk Owners (persons holding managerial positions in the organization), who then valuate them in accordance with predetermined scales of probability and potential impact of risk materialisation in five areas. Risks that received a total score in excess of a certain value are considered strategic risks – significant for the Company's business. For those risks, actions/plans aimed at minimising them and mitigating the possible effects of their occurrence are established and accepted by the Management Board. An important role in the risk management system of the Company is played by the Enterprise Risk Management Committee appointed by the Management Board, which Committee has its own specific competences at every stage of ERM operation, and which performs functions that involve accepting and issuing opinions on any identified risks and mitigation measures.

The Company presents information and reports on the results of ERM implementation and operation to the Supervisory Board and the Audit Committee. In subsequent periods, work is planned to further adapt the system to the needs of the Company to increase its role and effectiveness, based on the experience and performance of the system to date. Consistent monitoring of the risks the Company faces and integrating the system of managing enterprise risk to managerial processes applied at the Company is key for creation and permanent protection of its value. This also applies to threats for the Company's operations triggering a possible drop in its value on one hand, as well as risks related to the pursuance of strategy, providing development opportunities and an increase in value for the shareholders, on the other.

6. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN 2012

6.1. Share capital

Since 10 June 2009 the LW BOGDANKA S.A.'s share capital has amounted to PLN 170,067,950 (one hundred seventy million sixty-seven thousand nine hundred and fifty zlotys) and was divided into 34,013,590 (thirty four million thirteen thousand five hundred and ninety) shares with a total value of PLN 5 (five zlotys) each. On 4 January 2012, 3,208,111 registered shares of the Company acquired by eligible employees were dematerialised and introduced to trading on the Warsaw Stock Exchange. Dematerialisation and introduction to the WSE of further 34,754 shares took place on 4 February 2013. As at the date of preparing this Report, the share capital consists of 34,013,590 shares, including:

a) 34,013,455 Company shares marked PLLWBGD00016 (shares traded on the Warsaw Stock Exchange);

b) 135 series B registered shares;

6.2. 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 23 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 surname	**Number of Company shares as at 21 March 2013**	**Par value of shares (PLN)**	**Number of Company shares as at 27 April 2012**	**Par value of shares (PLN)**	**Number of 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
Raimondo Eggink	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 13.8.1.2 hereof
*** Changes in the composition of the Management Board are described in item 13.8.1.2.1
**** Changes in the composition of the Supervisory Board were described in item 13.8.2.2 of this Report

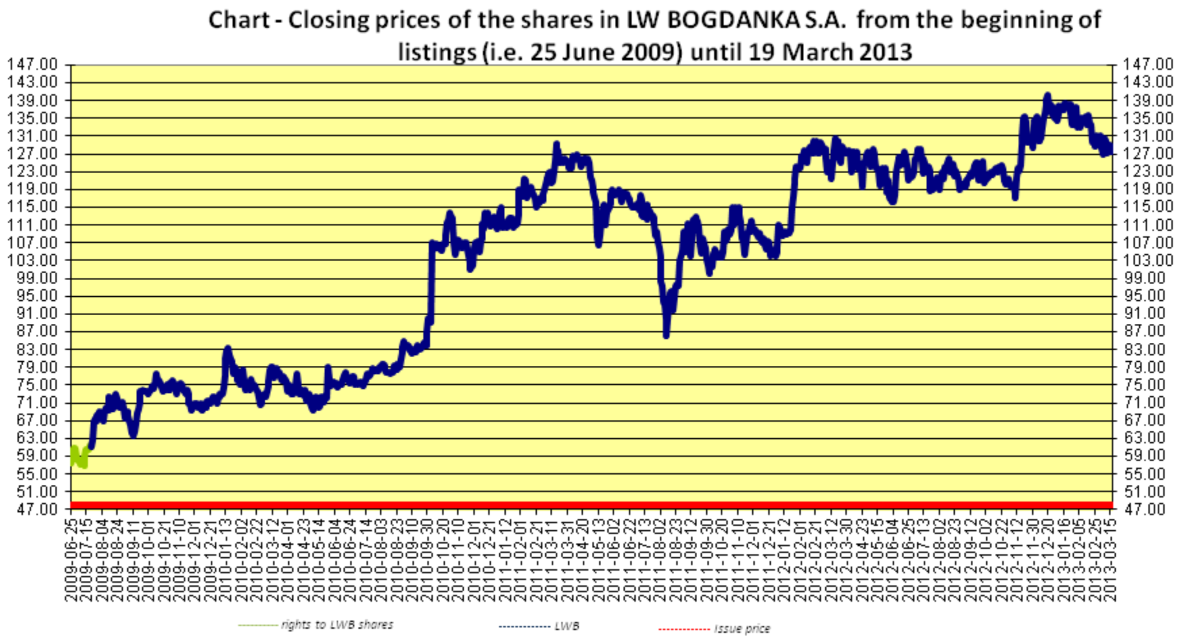
6.3. Information on agreements known to LW BOGDANKA S.A. (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the Company 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.

6.4. Acquisition of the Company's own shares

In 2012 the Company did not acquire any of its own shares.

6.5. Price of Rights to Shares/ Shares of the Company since its debut on the Warsaw Stock Exchange.



6.6. BOGDANKA in indices

6.6.1 BOGDANKA added to the WIG20 index

Lubelski Węgiel BOGDANKA S.A. qualified for the WIG20 index of the biggest companies listed on the Warsaw Stock Exchange. The news on introducing LW BOGDANKA do WIG20 was announced by WSE's Management Board in their press release of 10 February 2011.

The debut listing of LW BOGDANKA S.A. in the WIG20 index took place at the first trading session after 18 March 2011. The Company, together with KERNEL, replaced Cyfrowy Polsat and Polimex Mostostal in the index. Companies listed in the WIG20 index undergo a quarterly review. New adjustments to the index may be introduced at the first session after 18 June 2011. On 31 January 2012, another ranking of the WIG20 index, and BOGDANKA kept in place in the group of WIG20 companies. As at the date of submitting this Report LW BOGDANKA remains in the WIG-20 index.

6.6.2 Lubelski Węgiel BOGDANKA S.A. included in the RESPECT Index

In 2012 LW BOGDANKA S.A. was twice qualified for the RESPECT Index Rating.

On 31 January 2012 the Warsaw Stock Exchange once again nominated 23 WSE-listed companies to be included in the prestigious RESPECT Index Rating. Among them was Lubelski Węgiel BOGDANKA S.A. – the first Polish coal mining company listed on the WSE. Publication of the index commenced on 1 February 2012.

On 31 July 2012 Lubelski Węgiel BOGDANKA S.A. was for the second time in 2012 included in the RESPECT Index Rating. This time, 20 public companies were included in the new index. Publication of the index in this composition commenced on 1 August 2012.

On 24 January 2013, for the first time in 2013 (and for the fifth time in general) LW BOGDANKA S.A. was included in the group of socially responsible companies.

6.6.3 New WIG-surowce raw materials index

In March 2011 a new WIG-surowce raw materials sub-index was introduced on the Warsaw Stock Exchange. The index groups companies operating in the area of raw materials extraction and processing. As at the date of submitting this Report, LW BOGDANKA is listed in the WIG – raw materials index.

7. PERSONNEL INFORMATION

7.1. Employment structure

Table 24 Employment status of the Company as at 31 December 2010, 2011 and 2012.

Employment	2010	2011	2012	Dynamics 2012/2011 [%]
Total staff	**3,968**	**4,184**	**4,587**	**109.63**
Underground workers	2,604	2,697	3,010	111.61
Surface workers	800	891	956	107.30
Full-time employees underground	291	313	333	106.39
Full-time employees on the surface	273	283	288	101.77
Total underground	2,895	3,010	3,343	111.06
Total workers	3,404	3,588	3,966	110.54

Employment in 2012 increased by 403 persons, i.e. by 9.63 % in relation to the employment at the end of 2011. The table below presents staff turnover in a three-year period:

Table 25 Staff fluctuations in 2010-2012

Item	2010	2011	2012
Beginning of year	**3,885**	**3,968**	**4,184**
Recruitments	240	425	580
Employees dismissed	157	209	177
End of year	**3,968**	**4,184**	**4,587**
Recruitment rate	6.17%	10.71%	13.86%
Dismissal rate	4.04%	5.27%	4.23%

In 2012, 580 employees were hired, including 26 secondary school graduates, 19 university graduates, 534 persons from outside of the mining industry, 1 person from other mining companies.

At the same time 177 employees left the mine:

- 121 - on pension or disability benefits,
- 6 - died,
- 50 - other dismissals (termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts).

The employment structure of Lubelski Węgiel BOGDANKA S.A. by age, as at 31 December 2012, was as follows:

Table 26 Employment structure by age

Age	Number of employees			
	Women	Men	Total	%
Total staff	**243**	**4,344**	**4,587**	**100.00**
Below 30	29	1,481	1,510	32.92
Between 30 and 40	27	1,112	1,139	24.83
Between 40 and 50	93	1,148	1,241	27.05
Over 50	94	603	697	15.20

The employment structure by length of service of persons employed on the basis of employment contract at the end of 2012 was as follows:

Table 27 Employment structure by length of service at the end of 2012

Years of service	Number of employees in the year of service groups			
	Women	Men	Total	%
Total staff	**243**	**4,344**	**4,587**	**100.00**
Below 10	41	1,869	1,910	41.65
Between 10 and 15	8	405	413	9.0
Between 15 and 20	17	257	274	5.97
Between 20 and 25	25	404	429	9.35
Over 25	152	1,409	1,561	34.03

The above table shows that 2,264 employees (49.36%) working in the Company have over 15 years of service, which stands for a lot of experience and high qualifications

7.1.1 Professional background of employees

Analysing professional background of the employees, it should be stated that the largest group is made of persons with secondary education. Their share in total employment at the end of December 2012 was 49.93 %.

The table below presents employment structure by education as at 31 December 2012:

Table 28 Employment structure by education

Education	Number of employees			
	Women	Men	Total	%
Total staff	**243**	**4,344**	**4,587**	**100.00**
Higher	83	813	896	19.53
Secondary	130	2,160	2,290	49.93
Basic	28	1,182	1,210	26.38
Primary	2	189	191	4.16

7.1.2 Forms of performing work

The basic form of employment in the Company is an employment contract. Other forms of employment, such as a mandate contract or a performance contract, are used occasionally.

Employees are hired on the basis of an employment contract for an indefinite term. In case of newly hired employees, these contracts are preceded by contracts for a probationary period or for a definite term. The number of persons employed for an indefinite term as at 31 December 2012 was 976 persons.

7.2. Work productivity

Table 29 Total and underground productivity in LW BOGDANKA S.A. in 2010-2012

Productivity	2010	2011	2012	Dynamics 2012/2011 [%]
Total [kg/man-day]	8,368	8,289	8,953	8.01%
Underground [kg/man-day]	18,750	21,559	20,768	-3.67%

In 2012 total productivity (measured as a ratio of net output to total days of work) was higher than in 2011. Year-on-year an increase was noted from 8,289 kg/man-day (in 2011) to 8,953 kg/man-day (in 2012). The positive growth dynamics of this indicator are due to a greater increase in net output as compared to the change of total working days.

Underground productivity (measured as a ratio of gross output to days worked underground) decreased in 2012 by 3.67% in comparison to 2011. The negative dynamics of this indicator are due to a larger increase in underground working days as compared to gross output.

7.3. Average monthly remuneration

Principles of remuneration in the Company in 2012 were regulated by the Collective Bargaining Agreement of 31 October 2001, concluded between the Management Board of the Company and trade organisations operating within the Company: Independent and Self-Governing Trade Union "Solidarność", Trade Union of Miners in Poland, Trade Union "Kadra" and Trade Union of Employees of Mechanical Coal Processing Plants "Przeróbka".

The Collective Bargaining Agreement specifies a package of benefits due within the employment relationships and principles for granting individual components of remuneration, including bonuses for effective work hours, e.g. for working overtime, bonuses for rescuers and others.

In 2012, changes to applicable provisions were introduced on the basis of additional protocols:

- under additional Protocol No. 44, as of 1 February 2012, changes were introduced to the hierarchical classification of some positions in the qualification scales of individual employee groups and the value of supportive meals was specified;
- under Protocol No. 45, as of 1 March 2012, the value of basic salaries, effective allowances for the work performed, money equivalent for coal allowance;
- under Protocols No. 46 as of 1 August 2012, an amount of PLN 6,500,000 was transferred (like in the previous years) as an additional contribution to the Company Social Benefit Fund, intended for the financing of individual summer holidays of the employees and the amount of the foreman allowance was increased.

The table below illustrates the level of effected average monthly remuneration for work, for individual employee groups:

Table 30 Level of effected average monthly remuneration for work in 2011 and 2012 [in PLN]

Item	2011	2012	Dynamics 2012/2011 [%]
Total staff	**6,529.89**	**6,967.99**	**106.71**
Manual labourer	6,162.52	6,581.66	106.80
Underground workers	6,599.76	7,028.36	106.49
Surface workers	4,798.77	5,171.95	107.78
Full-time employees	8,727.75	9,407.97	107.79
Full-time employees underground	9,881.86	10,724.64	108.52
Full-time employees on the surface	7,430.43	7,905.86	106.40

*the average value includes also employees employed for training workdays,

The total average remuneration increased by 6.71%, which is 1.21% more than the 5.5% growth rate scheduled for 2012 in the Technical and Economic Plan and the payroll policy.

Such an increase was the result of not fulfilling the plan of employing 79 people and worse conditions of mining seams with concentrations of stone, which, in turn, resulted in intensification of the efforts of employees in the execution of planned tasks and more than planned spending from the payroll fund due to changes in the Management Board of the Company.

In particular, the increase in the average monthly remuneration was caused by year-on-year changes in base remuneration and base bonus rate, foreman allowances and allowances for work at night. In addition, there was a more than 11-percent increase in remuneration for the holiday leave period and in non-periodical components of remuneration, i.e. a more than 11-percent increase in years of service awards and severance pay for the dismissed.

7.4. Rules governing remuneration of the management and supervising personnel of the Company's and the value of such remuneration, awards or benefits payable to managing and supervising personnel in 2012

7.4.1 The Management Board and proxies:

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

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

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.

7.4.2 Supervisory Board

Members of the Supervisory Board 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 Company's Management Board based on the equity.

7.5. All agreements concluded in 2012 by and between LW BOGDANKA S.A. and 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.

7.6. Employee social and welfare benefits

In the course of restructuring, the Company has disposed of the majority of its employee facilities, including the entire stock of company flats.

At the moment, the Company owns the following facilities: the Rogóźno holiday centre (which is rented by Związek Zawodowy Górników w Polsce – Trade Union of Miners in Poland), canteen at Bogdanka, which is rented by Przedsiębiorstwo Handlowo-Usługowe "Górnik" Sp. z o.o. at Bogdanka, the "Stary Tartak" facility, which functions as a training centre for employees, and a summer holiday centre in Łazy in the West Pomerania province, which is rented for M&M Michal Przekurat (land property of an area of 120 ares, including four pavilions with 111 bed places and campsite with hygiene facilities).

Employee social and welfare benefits are provided as part of the Company Social Benefits Fund, which is earmarked for subsidising the following purposes:

- holidays for children and teenagers (summer camps, winter camps, etc.),
- company-organised holidays, including physical medicine and rehabilitation stays,
- financial support for the costs of nurseries,
- subsidised trips,
- cultural and educational activities (art and culture events, tickets for sports events),
- material and financial support for employees and pensioners with welfare and living difficulties, (one-time benefits)
- housing support in the form of loans to subsidise charges associated with the exchange of cooperative apartments, construction of a residential house, cash contribution to a housing cooperative towards the construction of residential facilities, purchase of a residential building or apartment, vertical enlargement and extension of a building for residential purposes, and rehabilitation and upgrading of an apartment.

Table 31 Inflows and outflows from the Company Social Benefits Fund in 2011-2012 [in PLN '000]

Type of benefit	2011		2012	
	inflows	outflows	inflows	outflows
Housing loans	2,170	2,741	2,326	2,767
Holidays for adults	0	1,507	0	1,467
Holidays for children	0	484	0	435
One-time benefits	0	184	0	141
TOTAL:	**2,170**	**4,916**	**2,326**	**4,810**

7.7. Occupational health and safety

7.7.1 Working conditions

The nature of the Company's operations entails that the staff employed at the mine, especially underground, are exposed to a number of natural and technical risks. Work in underground conditions also exposes the staff to harmful and nuisance work environment factors at work stations.

7.7.2 Natural risks

The following natural threats occur in the mine:

- Methane hazard – category I (the lowest of four categories according to the classification).
- Fire hazard – the mine exploits the seams included in the fourth group of coal self-ignition hazard

(according to five-group classification). High risk level requires conducting constant and intensive fire prevention measures and staff training in this respect. No fire occurred in 2011.

- Coal dust explosion risk – the seams where mining is taking place have been classified as category B in terms of coal dust explosion risk, and the long wall workings have been classified as no-risk, and category A and B in terms of coal dust explosion risk. At workings classified as category A and B in terms of coal dust explosion risk, zones inhibiting explosion propagation are maintained by stone dusting. At workings classified as category B in terms of coal dust explosion risk, anti-explosion dust and water barriers are used. Accumulation of the dangerous coal dust is limited by using dust volatility-inhibiting agents at sites where the dust originates (sprinkler systems in mechanical miners and heading machines and in dumping machines at output dump locations) In 2012, twenty new facilities for a new sprinkler system were bought and installed (the system of air and water sprinkling at dumping locations).
- Water risk – in 2012 all mining excavations were carried out at grade I water risk (the lowest one).

Strict compliance with occupational health and safety regulations, monitoring, and preventive measures ensure that those threats are entirely under control.

7.7.3 Technical risks

In 2012, on average 263 staff were working daily at work stations where mechanical risks associated with particularly dangerous machinery were present. A 10% rise, as compared to 2011, is due to a significant increase in the scope of works, and consequently, also an increase in the number of machines. Particularly dangerous machinery includes but is not limited to the machinery listed in Annex IV to Directive 98/37/EC implemented by virtue of the Regulation of the Minister of Economy, Labour and Social Policy of 10 April 2003 on the essential requirements relating to machinery and safety components (Dz. U. [Official Journal] No. 91, item 858). Particularly dangerous machinery includes but is not limited to locomotives, hydraulic-powered roof supports, presses, saws, etc. Reduction of technical risks and their impact on employees is effected gradually to reflect technological progress. New technological solutions in direct production, such as coal ploughing system, continue to be implemented. Moreover, at work stations indirectly associated with coal production, innovative technical solutions and small mechanisation equipment with improved safety norms are implemented. The Company monitors the market in terms of new safe machines and equipment. The staff is trained both in operating small mechanisation and machines, facilities and installations requiring appropriate qualifications. In addition to training carried out by the Training Department, the employees acquire skills and qualifications required for the Company in outside training sessions.

7.7.4 Harmful and nuisance factors

Measurements of harmful factors occurring at work stations at the Company are conducted in accordance with the Regulation of the Minister of Health of 20 April 2005 on testing and measuring harmful factors at work environment (Dz. U. [Official Journal] 28 April 2005) and an internal procedure developed in that respect:

- measurements of hard coal dust, including the content of free crystalline silica, audible noise, and general and local vibrations are conducted by the accredited Work Environment Laboratory of Lubelski Węgiel BOGDANKA S.A.
- measurements of ionising radiation, harmfulness of welding gases and UV radiation, as well as microclimate and energy expenditure are contracted to other external laboratories, such as GIG (Central Mining Institute) and Centrum Badań Jakości (Quality Control Centre) in Lubin.

7.7.5 Dustiness

In 2012, the number of staff working at work stations where health risk associated with the harmful factor of dust containing free crystalline silica in concentrations exceeding the maximum permissible concentration is present amounted to 877 persons. Those employees were employed at workings classified as category A and B in terms of harmful dust risk.

In 2012 there was a decrease by approx. 7.5% in the number of persons employed at sites where maximum permissible concentration was exceeded, despite an increase in overall employment by more than 9%. This was yet another year which saw a decrease in the number of employees exposed to dust in excess of the maximum permissible concentration. It should be concluded that preventive measures specified in the preventive measures program contained in the Safety Document are appropriate.

The program involves the following:

1. Using efficient collective protection measures, including

   a) at face workings:

   - internal and external sprinklers on mechanical miner organs,
   - chemical agents to soften water,

   b) at drift workings:

   - combined ventilation,
   - dry dust collectors,
   - internal and external sprinklers,
   - chemical agents to soften water,

   c) other measures at sites other than mine face:

   - sprinklers at dumping locations,
   - dust hoods at conveyors near air stopping,
   - washing and removal of accumulated dust.

2. Introducing new machines and technologies which limit the emission of dust to underground workings.

All employees exposed to harmful dust are equipped with appropriate personal protection equipment, depending on the category of dust risk. Each employee is informed of the existing danger and trained in how to use such personal protection equipment appropriately.

7.7.6 Audible noise

In 2012, the number of staff working at work stations where health risk associated with the harmful factor of noise exceeding the maximum permissible levels is present amounted to 924 persons.

In 2012, there was a significant drop in the number of persons employed at sites where the maximum permissible level of noise was exceeded (in 2011 – 1,205 persons).

Preventive measures against the noise involve consistent implementation of a plan of action intended to eliminate sources of noise, especially exceeding the maximum permissible levels, and also to limit the harmful impact of noise on the employee at work stations where it exists. Such actions are conducted at four different levels:

- taking into account employee protection against noise at the stage of designing and creating a work station,
- monitoring the risk – noise – at work stations, analysis of findings and undertaking measures,
- limiting the employee's exposure to harmful noise during work at a work station,
- medical care – hearing tests.

All employees working in underground excavations as well as those employed above ground, on positions where the noise level is exceeded, are equipped with relevant hearing protection devices. Each employee is informed of the present danger and receives training regarding a correct application of individual protection measures. Sites where the maximum permissible levels are permanently exceeded are marked with relevant noise information labels.

7.7.7 Mechanic vibration

In 2012, there was also a drop in the number of employees in work stations with health hazards of harmful factors, i.e. mechanical vibrations of the intensity in excess of the highest admissible values (occupational exposure limit) from 34 persons in the previous year to 21 persons. The drop occurred despite an increase in the number of machinery, equipment and tools.

The machinery, equipment and hand-held tools used in the production process generate mechanical vibration.

Depending on the site where vibrations penetrate the human body, they can be divided into two categories:

- localised vibrations which affect the human body through upper extremities (rotational and percussive tools such as drills, pneumatic hammers, roof bolting machines or tightening machines)
- general vibrations which penetrate the human body through body parts other than upper extremities (machinery and equipment such as heading machines, locomotives, road-heading machines, underground means of transport, etc.).

The current preventive measures to reduce the impact of vibrations (localised vibrations) involves primarily gradual introduction of new tools and equipment with lower vibration emissions. The time of using hand-held tools which generate vibrations is controlled so that it does not exceed the permissible time of using a given type of tool. Moreover, personal protection equipment – anti-vibration gloves – is used.

As for general vibrations, preventive measures involve using anti-vibration materials on machinery and equipment components which emit general vibrations, so that they do not propagate along structural components to which the employee may be exposed.

Table 32 Number of employees working at work stations where maximum permissible levels and maximum permissible concentrations are exceeded

Year	**Underground**				
	dustiness	**noise**	**vibrations**	**chemical agents**	**other**
2008	1,336	1,036	-	-	-
2009	1,445	1,173	-	-	-
2010	948	907	17	-	-
2011	1,097	1,205	34	**-**	**-**
2012	**877**	**924**	**21**	**-**	**-**

7.7.8 Nuisance factors

Nuisance factors in work environment are such factors the impact of which may cause an employee to feel unwell or excessive fatigue but does not lead to permanent health deterioration. Such factors may, however, lead to prolonged absence due to illness and decreased efficiency.

The main nuisance factors present at the Company, and specifically associated with underground mining operations, include:

- microclimate,
- lighting,
- excessive physical effort.

Measurements of microclimate components (temperature, humidity, pressure, cooling intensity) and lighting are conducted by authorised departments of the Company, in accordance with the relevant applicable legal regulations. Reducing the impact of such nuisance factors is effected through a number of technological and organisational solutions. On a regular basis, measurements of microclimate parameters are conducted. In 2012, on average 558 staff were working daily in hot microclimate conditions (temperature above 25° C). Such a decrease (from 913 in 2011) results also from introducing central air-conditioning system in the Stefanów Field.

In 2012, there was also a decrease in the number of employees exposed to excessive physical effort, from 258 persons per day in the previous year to 123 persons. The Company keeps introducing equipment to improve the comfort and conditions of work. The market of new climatic equipment used in underground mines is monitored.

7.7.9 Work accidents

In 2012, there were 103 work accidents at LW BOGDANKA – 102 minor and 1 major. The number of accidents and basic accident rates are presented in the table below.

Table 33 Number of accidents and accident rates at the Company in 2009-2012

Year	2009	2010	2011	2012
Number of accidents – total	70	70	93	**103**
including: fatal	-	-	-	**-**
causing serious injury	1	-	-	**1**
frequency rate (per 1000 employees)	18.66	17.84	22.81	**23.05**
frequency rate (per 100,000 workdays)	8.91	8.58	11.03	**11.19**

As the health condition of an employee who in 2011 experienced a major accident improved, allowing him to return to work, the accident was reclassified as a minor accident.

Table 34 Work accident costs at the Company in 2009-2012

Year	Number of accidents	including:		benefits paid (in PLN '000)
		fatal	serious	
2009	70	-	1	181.6
2010	70	-	-	283.1
2011	93	-	-	332.3
2012	**103**	**-**	**1**	**412.2**

7.8. Trade Unions

Four union organisations operate at the Company.

As at 31 December 2012, the size of the individual trade unions was as follows:

1. "Solidarność" Independent Self-Governing Trade Union 1,168 members
2. Trade Union of Miners in Poland 1,270 members
3. "Kadra" Trade Union 275 members
4. "Przeróbka" Trade Union 273 members

As at 31 December 2012, the number of staff employed at the Company amounted to 4,587 persons. In total, 2,986 employees belonged to union organisations, which constitutes 65.10% of the total head count.

Each of those union organisations includes members who belong to several union organisations – approx. 75 employees.

Cooperation of the Management Board of Lubelski Węgiel BOGDANKA S.A. with the management boards of union organisations is constructive. Union organisations participate in decision-making to the extent provided for by the law.

7.9. Collective disputes

On 2 February 2012 the Trade Unions operating in LW BOGDANKA S.A. entered into a collective dispute with the Company in connection with the lack of consent of the Management Board to the execution of the payroll policy in the form proposed by the Trade Unions.

As a result of mediation conducted by a mediator designated by the Minister of Labour and Social Policy, an agreement was reached and signed on 9 March 2012, concluding the collective dispute. The agreement provides for a rise of average monthly remuneration by 5.5% compared to the average remuneration in 2011 as of 1 March 2012.

7.10. Information on a control system of employee share schemes

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

8. ENVIRONMENTAL PROTECTION

8.1. 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.

8.2. Natural environment protection measures

8.2.1 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.

8.2.2 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.

8.2.3 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.

8.2.4 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 35 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.).

8.2.5 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 36 Cost 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 37 Exploitation charge and mining use charge [in PLN '000]

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

9. COURT AND OUT OF COURT PROCEEDINGS

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.

9.1. Arrangement proceedings

In 2012, the Company was not a party in arrangement proceedings.

9.2. Court cases

9.2.1. Bankruptcy proceedings

1. a debt claim in bankruptcy proceedings against Mega System Sp. z o.o. in Kołobrzeg for the amount of PLN 3,838.01. At the moment, the proceedings are conducted by the District Court in Koszalin, case No. VII GUp 13/12 (previously VII Gu 4/09). Under order of 13 July 2012, the Court reversed the arrangement option and changed the proceedings from proceedings with arrangement option to proceedings involving liquidation of the bankrupt's estate.

2. a debt claim in bankruptcy proceedings against BUDGOR Spółka Akcyjna in liquidation in Lublin for the amount of PLN 2,336.41. At the moment, the proceedings are conducted by the Lublin-Wschód District Court in Lublin, based in Świdnik, IX Commercial Division, case No. IX Gup 4/11 (previously XVIII Gup 18/04).

3. a debt claim in bankruptcy proceedings against Dolnośląskie Zakłady Metalurgiczne DOZAMET S.A. in liquidation in Nowa Sól for the amount of PLN 4,163.79. At the moment, the proceedings are conducted by the District Court in Zielona Góra, case No. V U 17/99.

4. a debt claim in bankruptcy proceedings with arrangement option, against CONBELTS Bytom S.A. with its registered office in Bytom, for the amount of PLN 32,225.61. The proceedings are conducted by the District Court in Katowice, X Commercial Division, Judge-Commissioner: district court judge Renata Michalak, Case No. X Gup 45/09/12.

   Under order of 22 May 2012, the Katowice-Wschód District Court in Katowice ended the bankruptcy proceedings and discontinued the enforcement and injunction proceedings against CONBELTS BYTOM SA. Under the terms of the arrangement, creditors whose total debt claims did not exceed the sum of PLN 10,000 as at the day of bankruptcy (i.e. 17 December 2009) will be repaid with a single payment by 31 May 2013, and other creditors will be repaid in 20 quarterly instalments, starting from the end of June 2013.

5. a debt claim in bankruptcy proceedings against WPHUP RUREX Sp. z o.o. in Bytom in liquidation for the amount of PLN 1,019.35; the proceedings are conducted by the District Court Katowice-Wschód in Katowice, case No. X GUP 44/09/8. Proceedings pending. On 14 December 2012, a partial demerger plan was developed.

6. a debt claim in bankruptcy proceedings against ZPH Olszewski S., Olszewska A. JAKOL Sp.J. in liquidation in Kopina for the amount of PLN 8,536.21. The proceedings are conducted by the Lublin-Wschód District Court in Lublin, based in Świdnik, case No. IX GUp 11/12. Proceedings pending.

7. a debt claim in bankruptcy proceedings against KPBP BUDUS SA in liquidation in Katowice, conducted by the Katowice-Wschód District Court in Katowice, X Commercial Division for Bankruptcy and Reorganisation, case No. X GUp 41/12/4. Proceedings pending.

9.2.2. Commercial lawsuits

A. Lawsuits against the Company

1. a lawsuit filed by the Consortium of: BUDIMEX SA with its registered office in Warsaw, Ferrovial Agroman S.A. with its registered office in Madrid, and Mostostal Kraków S.A. with its registered office in Krakow, for payment of the total sum of PLN 10,125,411.00 plus statutory interest from 2 November 2010 to the date of payment, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 245/11. The case is at the stage of evidence proceedings before the Court of first instance. On 27 November 2012, the Court admitted an opinion by a court expert. The next date of Court meeting has not been set.

- The claim for damages, pressed in this lawsuit, encompasses:

- the amount of PLN 9,946,033.00 as redress of damage (benefits lost (*lucrum cessans*)) allegedly suffered by the members of the aforementioned Consortium in light of the Company's execution of the agreement for construction works with Mostostal Warszawa S.A.'s Consortium, the subject matter of which consists in the expansion of the Company's mechanical coal processing plant, whereas the judgement of the Regional Court in Lublin of 30 June 2010 amended the judgement of the National Appeal Chamber in Warsaw, invalidating the selection of the bid of Mostostal Warszawa S.A.'s Consortium and ordering re-assessment of bids and selection of the best bid;

- the amount of PLN 179,378.00 as redress of damage on account of [...] incurred by the aforementioned Consortium, the costs of legal assistance related to the lawsuit initiated by the complaint of the Consortium against the aforementioned judgement of the National Board of Appeal regarding the Company's actions as the Employer in the public procurement proceedings concerning the contract for the expansion of the aforementioned mechanic coal processing plant.

2. a lawsuit filed by Mr Adam Partyka, pending before the Regional Court in Lublin, IX Commercial Division, case No. IX GC 317/11. Pursuant to his statement of claim of 26 July 2011, Mr Adam Partyka demands that resolution No. 32 of the Annual General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A. of 10 May 2011 concerning amendments to the Company's Articles of Association be held invalid. Under the challenged resolution, the Annual General Shareholders Meeting deleted §§ 35-38 of the Company's Articles of Association, which provisions defined the employees' right to elect two members of the Supervisory Board. By virtue of a judgment, of which the Company informed in Current Report No. 54/2012 of 7 December 2012, the Court dismissed the claim and awarded the Company the amount of PLN 377 from Mr Adam Partyka as reimbursement for the costs of the proceedings. The Claimant appealed against the aforesaid judgment, of which the Company became aware on 9 January 2013. The Company submitted a response to the appeal. Presently, the case is at the stage of proceedings before the Court of Appeal in Lublin. The date of appellate meeting has been set at 10 April 2013.

3. a lawsuit filed by Ms Olga Koza, pursuing business activity under the name Przedsiębiorstwo Wielobranżowe Monter with its registered office in Lisów, for payment of PLN 29,862.83 in statutory interest for the Company's delay in payment for goods delivered by Ms Olga Koza. By virtue of an order to pay of 19 March 2012, the District Court in Częstochowa, in the case No. VIII GNc 696/12, awarded the Claimant the amount of PLN 29,862.83 plus statutory interest from 22 February 2012 and the amount of PLN 2,791 as reimbursement for the costs of the proceedings from the Company. The Company challenged the aforesaid order. By virtue of a decision of 7 May 2012, the District Court in Częstochowa found it was not competent in the case and referred it to the District Court Lublin-Wschód in Lublin with seat in Świdnik (case No. VIII GC 1196/12). The case is at the stage of evidence proceedings before the Court of first instance. The next date of Court meeting has been set at 18 April 2013.

4. A lawsuit filed by Ms Olga Koza, pursuing business activity under the name Przedsiębiorstwo Wielobranżowe Monter with registered office in Lisów, for payment of PLN 13,593.96 plus statutory interest from 24 March 2012 to the date of payment under the price for delivered good, pending before the District Court Lublin – Wschód in Lublin with seat in Świdnik, case No. VIII GC 1425/12. The case is at the stage of evidence proceedings before the Court of first instance. The Court deferred the date of issuance of its decision to 18 March 2013.
5. A lawsuit filed by Ms Olga Koza, pursuing business activity under the name Przedsiębiorstwo Wielobranżowe Monter with registered office in Lisów, and Mr Zdzisław Koza, pursuing business activity under the name Zakłady Metalowe KOZAMEX ZPChr Zdzisław Koza with registered office in Lisów, for payment of the amount of PLN 14,931.42 to each of the Claimants for the Company's delay in payment for goods delivered by the Claimants. By virtue of an order to pay of 7 December 2012, the District Court Lublin – Wschód in Lublin with seat in Świdnik, VIII Commercial Division, awarded each of the Claimants the amount of PLN 14,931.42 plus statutory interest from 29 November 2012 to the date of payment from the Company. On 2 January 2013, the Company challenger the aforesaid order to pay. Presently, the case is at the stage of proceedings before the Court of first instance.
6. A lawsuit filed by VENITEC Sp. z o.o. with registered office in Katowice, by virtue of an order to pay of 29 May 2012, the District Court Katowice Wschód in Katowice, in the case No. VI GNc 1680/12/2, awarded the Claimant the amount of PLN 10,484.61 plus statutory interest from 19 December 2011 and the amount of PLN 136 as reimbursement for the costs of the lawsuit from the Company. On 19 June 2012, the Company challenged the aforesaid order. By virtue of a decision of 27 July 2012, the District Court in Katowice found it was not competent territorially in the case and referred it to the District Court Lublin – Wschód in Lublin with seat in Świdnik. The dispute concerns whether it was justified by the Company to set off the receivables owed to the Company by VENITEC Sp. z o.o. under contractual penalties against the receivables owed by the Company to VENITEC Sp. z o.o. under the price for delivered goods. Presently, the case is at the stage of evidence proceedings before the Court of first instance (current case No. VIII GC 1821/12). The next date of Court meeting has been set at 16 April 2013.
7. A lawsuit filed by Mostostal Zabrze Zakład Montażowo Produkcyjny Katowice Sp. z o.o. against the Company and PMKSiUG PEMUG SA, KPBP BUDUS SA, Dekade Invest Sp. z o.o., WKS Ostrowiec Sp. z o.o., for payment of the amount of PLN 940,229.00, pending before the Regional Court in Kielce, case No. VI GC 51/12.
    a. By virtue of a judgment of 25 December 2012, the Court awarded the Claimant the amount of 940,228.83 jointly and severally from the Defendants: PMKSiUG Pemug SA and KPBP Budus SA, and dismissed the claim in other respects (including against the Company). In addition, it awarded each of the Company and the Defendants, i.e. Dekade Invest Sp. z o.o., WKS Ostrowiec Sp. z o.o., the amount of 7,217.00 as reimbursement for the costs of the lawsuit from the Claimant. The Defendant PMKSiUG Pemug S.A. appealed against the aforesaid judgment. By virtue of a decision of 5 March 2013, the Court dismissed the Claimant's appeal against the aforesaid judgment. The decision is not final and legally binding.
    b. The statement of claim is based on a disposition contained in Article 6741.5 of the Civil Procedure Code. The Company was sued as the Investor by one of further subcontractors for payment of remuneration for completed construction works. Such liability is independent of the fact that the Company has made the payment for the same works to the General Contractor.
8. A complaint filed by Dębieńsko Sp. z o.o. with registered office in Czerwionka – Leszczyny requesting resumption of the proceedings ended with a final and legally binding judgment of the Regional Court in Gliwice, X Commercial Division, of 16 July 2008, case No. X GC 60/08, value of litigation: PLN 14,431,837.31 – pending before the Regional Court in Gliwice, case No. X GC 242/12. Presently, the Company prepares a response to the complaint requesting resumption of the proceedings. By virtue of the aforesaid final and legally binding default judgment of 16 July 2008, the Regional Court in Gliwice awarded the Company in aggregate the amount of PLN 14,431,837.31 plus statutory interest, calculated on the amounts and from dates stated in the judgment, and the costs of the lawsuit in the amount of PLN 102,217.00 from Dębieńsko Sp. z o.o. in Czerwionka – Leszczyny. The amount awarded in the aforesaid final and legally binding judgment covers the receivables owed to PPHU Promessa Sp. z o.o. by Dębieńsko Sp. z o.o., transferred onto the

Company on 26 June 2003 under receivables agreements, designated with numbers 466/F/2003 and 467/F/2003, in order to secure the performance by PPHU Promessa Sp. z o.o. of a settlement concluded with the Company on 26 June 2003 in connection with assumption of liability against the Company for non-payment of carriage receivables owed to PKP Cargo S.A. by the Company and PH Olipol Sp. z o.o.

9. A lawsuit filed by Mr Jan Stachowicz and Ms Urszula Stachowicz, pending before the District Court Lublin – Wschód in Lublin with seat in Świdnik, case No. I C 611/12, for payment of the amount of PLN 63,940.00 plus statutory interest from 30 September 2010 as lost income in consequence of inability to resume farming and damages for attachment of real property needed for water engineering purposes. Presently, the case is at the stage of evidence proceedings before the Court of first instance.

B. Lawsuits filed by the Company

1. A lawsuit filed by the Company against Aleksander Kabut and Marek Sitarz for payment of PLN 29,555,090.00, pending before the Regional Court, Commercial Court, in Gliwice, case No. X GC 122/11. Under this lawsuit, the Company seeks award of the demanded sum from the defendants on account of their liability as members of Management Board of Dębieńsko Sp. z o.o. with registered office in Czerwionka Leszczyny under Article 299.1 of the Polish Commercial Companies Code. Presently, the case is at the stage of proceedings before the Court of first instance. The next meeting date has been set to 8 April 2013.
2. Lawsuits filed by the Company against Mr Zdzisław Koza, pursuing business activity under the name Zakłady Metalowe KOZAMEX ZPChr Zdzisław Koza with registered office in Lisów, for payment of PLN 141,201.00 in contractual penalties for delay in the performance of the agreements and in contractual penalty for rescission of the agreement. By virtue of an order to pay of 25 September 2012, the Regional Court in Lublin, IX Commercial Division, case No. IX GNc 393/12, awarded the Company the amount of PLN 141,200.19 plus statutory interest and the amount of PLN 5,383 as reimbursement for the costs of the proceedings. The Defendant challenged the aforesaid order. Presently, the case is at the stage of evidence proceedings before the Court of first instance (current case No. IX GC 538/12). The date of Court meeting has been set at 26 March 2013.
3. A lawsuit filed by the Company against GEORYT Sp. z o.o. with registered office in Katowice for payment of PLN 2,689.00 in contractual penalties for delay in the performance of the supply contract. The District Court Lublin-Wschód in Lublin with seat in Świdnik, VIII Commercial Division, case No. VII GNc 915/13. The case is at the stage of examination by the Court of first instance.

9.2.2.1. Cases pending before labour courts

1. A lawsuit filed by Mr Jerzy Staniak against the company for "compensatory pension", pending before the District Court in Lublin, VII Labour Division, case No. VII P 476/11. Presently, the Claimant demands to be awarded a compensatory pension in the total amount of PLN 54,400.00 for the period from 1 November 2008 to 31 August 2010, plus statutory interest from the date of maturity to the date of payment. By virtue of a judgement of 8 March 2012, the Court awarded PLN 22,620.34 from the Defendant to the Claimant as a compensatory pension for the period from 1 November 2008 to 31 March 2010 plus statutory interest (item I), dismissed the claim in the remaining part (item II). In item III, the Court set-off mutual costs of proceedings between the parties, in item IV – the Court ordered that the Defendant pays to the State Treasury the amount of PLN 1,132 for the unsettled fee on the claim, and an amount of PLN 650.12 as a refund of a portion of unsettled expenses, in item V – it seized to the account of the State Treasury the unsettled court fee, in item VI – it attached an immediate enforceability clause to the judgement. The Claimant lodged an appeal to the judgement regarding item II (dismissal of the claim) and item III (set-off of mutual costs of proceedings).

   By virtue of a judgment of 28 February 2013, the Regional Court in Lublin, VIII Labour and Social Security Division, in the case No. VIII Pa 118/12 rejected the Claimant's appeal in respect of item III of the judgment of the Regional Court in Lublin of 8 March 2012 and dismissed the appeal in respect of item II of that judgment, in addition it took over the expenses incurred by the Claimant for the account of the State Treasury and awarded the Company the amount of PLN 600 from the Claimant as reimbursement of the costs of the lawsuit in appellate proceedings in the form of the costs of representation in the lawsuit. The judgment is final and legally binding.

In addition, the Regional Court in Lublin, VII Labour and Social Security Division, by virtue of a judgment of 28 February 2013 issued in the case No. VIII Pz 16/12 – as requested by the Company – dismissed the complaint of Mr Jerzy Staniak and awarded the Company the amount of PLN 150 from him as reimbursement for the costs of the lawsuit in complaint proceedings in the form of the costs of representation in the lawsuit. The judgment is final and legally binding.

2. A lawsuit filed by Mr Wojciech Drozd against the Company, claiming payment, by the Company, of a "compensatory pension", pending before the District Court in Lublin, VII Labour Division, case no. VII P 859/08. The value of litigation is PLN 29,200. The claimant has claimed payment of a compensatory pension of PLN 1,000 per month starting from July 2008, to be subject to annual indexation by the inflation rate, and payment of PLN 13,200 as the aggregate amount of compensatory pension payments for the period from October 2005 to June 2008. Presently, the case is at the stage of evidence proceedings before the Court of first instance; the next date of Court meeting has been set at 25 March 2013.
3. A lawsuit filed by Ms Helena Mikstorowicz against the Company for determination and a cash equivalent for coal allowance (value of litigation: PLN 20,000). By virtue of a judgment of 30 October 2012, the District Court Lublin - Zachód in Lublin, in the case No. VII P 1648/11, awarded the Claimant the amount of PLN 6,286.53 from the Company and dismissed the claim in other respects. On 12 December 2012, the Company appealed against the aforesaid judgment to the Regional Court in Lublin. Presently, the case is at the stage of proceedings before the Court of second instance. The date of appellate meeting has been set at 20 March 2013.

9.2.2.2. Administrative cases

1. Proceedings to determine the amount of property tax liability for 2003 instigated by the Head of the Cyców commune, file no. Fn.3113-5-9/08. By virtue of a decision of 28 November 2008, the Head of the Cyców commune defined the tax liability in the amount of PLN 1,306,099.00 and past due tax to amount to PLN 954,299.80. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company filed an appeal from the above decision on 16 December 2008 to the Local Government Appellate Court in Lublin. By virtue of decision of 24 February 2009, the Local Government Appellate Court in Lublin (SKO 41/24/P/2009) quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. On 31 March 2009, the Head of the Cyców commune returned to the Company the excess payment, i.e. the amount of tax liability specified in the decision of 28 November 2008 plus interest and interest on that excess payment. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. By virtue of a judgement of 22 September 2010, the Provincial Administrative Court in Lublin, in the case No. I SA./Lu 657/09, quashed the challenged decision of the Local Government Appellate Court in Lublin. After the Provincial Administrative Court in Lublin quashed with the aforesaid judgement the decision of the Local Government Appellate Court of 24 February 2009 concerning full quashing of the decision of the Head of the Cyców commune on the amount of property tax liability for 2003, the Local Government Appellate Court in Lublin, with the decision of 18 October 2011, case ref. No. SKO.41/1932/P/2011, quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. The above-mentioned decision is final and binding.
2. Proceedings to determine the amount of property tax liability for 2003 instigated by the Head of the Puchaczów commune. By virtue of a decision of 30 May 2008, the Head of the Puchaczów commune, in case no. PF3110/001/75/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,735,945.10 and past due tax to amount to PLN 4,240,166.30. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company filed an appeal of the above decision. The Local Government Appellate Court in Lublin, by virtue of decision of 14 October 2008 quashed the above decision in full and sent the case back for the re-examination to the authority of first instance. Following the re-examination the Head of the Puchaczów commune, by virtue of a decision of 23 December 2008, in case no. PF-3110/001/80/06/07/08 2003 defined the property tax liability for 2003 in the amount of PLN 8,346,780.80 and the past due tax to amount to PLN 3,851,002.00.

On 31 December 2008, the Head of the Puchaczów commune returned to the Company the excess payment of PLN 686,960 comprising the property tax liability, interest on tax plus interest on that excess payment. The returned amount resulted from the difference between the amount of past due tax liability specified in the decision of 30 May 2008 and the amount specified in the decision of 23 December 2008. The Company filed an appeal of the above decision on 12 January 2009 to the Local Government Appellate Court in Lublin. The Local Government Appellate Court in Lublin, by virtue of the decision of 17 March 2009, in case no. SKO 41/373/P/2009, quashed the decision of the authority of first instance in full and discontinued the proceedings due to the expiry of the tax liability. On 29 April 2009, the Head of the Puchaczów commune returned to the Company the excess payment in the amount of the tax liability specified in the decision of 23 December 2008, i.e. the amount of PLN 3,851,002.00 together with interest due thereon in the amount of PLN 2,479,479.00, which in total amounts to PLN 6,330,481.00. However, the Head of the Puchaczów commune did not return the amount of interest on the above-mentioned liability together with interest due thereon calculated for the period from the date of payment to the date of return, which as at 29 April 2009 amounted to PLN 760,178.00. The District Prosecutor in Lublin filed a complaint for the above decision to the Provincial Administrative Court in Lublin. By virtue of a judgement of 4 December 2009, the Provincial Administrative Court, in case no. I S.A./Lu 616/09, quashed the decision of the Local Government Appellate Court of 17 March 2009. By virtue of a decision of 30 June 2010 the Local Government Appellate Court in Lublin quashed in full the decision of the Head of the Puchaczów commune of 23 December 2009 and sent the case back to be re-examined by the authority of first instance. On 12 January 2011, the Head of the Puchaczów commune issued a decision (case ref. No. PD-3110/96/06/07/08/09/2010/2011 2003) determining the amount of property tax for 2003 to be paid by the Company, i.e. PLN 8,346,780.80, including PLN 3,851,002 in past-due property tax for all the months of 2003. The Company appealed against the decision to the Local Government Appellate Court in Lublin. The Local Government Appellate Court in Lublin, with the decision of 28 October 2011, case ref. No. SKO.41/739/P/2011, quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability. The above-mentioned decision is final and binding.

3. Proceedings to determine the amount of property tax liability for 2004 instigated by the Head of the Puchaczów commune. On 30 November 2009, the Head of the Puchaczów commune issued a decision specifying the property tax liability for 2004, in the amount of PLN 8,460,204.20 as well as past due tax liability of PLN 3,942,761.90. The authority of first instance specified the above decision as immediately enforceable. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Puchaczów commune as regards the tax liabilities along with interest, as specified in the abovementioned decision, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of past due tax with interest, as specified in the writs of enforcement issued by the Head of the Puchaczów commune along with the enforcement costs. On 28 December 2009, the Company filed to the Local Government Appellate Court in Lublin an appeal from the decision of the Head of the Puchaczów commune of 30 November 2009. The Local Government Appellate Court in Lublin, by virtue of the decision of 29 November 2011, in case No. SKO.41/172/P/2010 quashed in full the decision of the authority of first instance and sent the case back for re-examination by the authority of first instance.

   The proceedings are pending before the authority of first instance. In its decision of 28 January 2013, the Head of the Puchaczów Commune informed that it was expected that the proceedings would conclude on 29 March 2013.

4. Proceedings to determine the amount of property tax liability for 2004 instigated by the Head of the Cyców commune. On 30 November 2009, the Head of the Cyców issued the decision specifying the property tax liability for 2004 to amount to PLN 1,387,486.90 as well as past due tax liability of PLN 1,031,010.00. The authority of first instance made the abovementioned decision immediately enforceable. On 22 December 2009, the Head of the Lubelski Tax Office in Lublin, acting under the writs of enforcement issued by the Head of the Cyców commune as regards the tax liabilities along with interest, as specified in the abovementioned decision, seized the Company's movables in the form of machines and equipment. On the same day the Company made a payment, to the bank account of the Lubelski Tax Office in Lublin, of the amount of past due tax with interest, as specified in the writs of enforcement issued by the Head of the Cyców commune along with the enforcement costs. On 28 December 2009, the Company filed to the Local Government

Appellate Court in Lublin an appeal from the decision of the Head of the Cyców commune of 30 November 2009. The Local Government Appellate Court in Lublin has extended several times the time limit for examination of the appeal filed by the Company. The Local Government Appellate Court in Lublin, with the decision of 14 December 2011, case ref. No. SKO.41/231/P/2010, quashed the decision of the authority of first instance in full and ordered the matter to be re-examined by the authority of first instance.

The proceedings are pending before the authority of first instance. In its decision of 3 January 2013, the Head of the Cyców Commune informed that it was expected that the proceedings would conclude on 28 February 2013.

5. Proceedings to determine the amount of property tax for 2005, instigated by the Head of the Puchaczów commune. On 20 October 2010, the Head of the commune issued a decision (case ref. No. PD-3110/87/06/07/08/09/2010 2005) determining the amount of property tax for 2005 at PLN 9,082,684.50 and past due tax to amount to PLN 4,390,617.30. In addition, the Head of the Puchaczów commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company appealed against the above decision. In its decision of 14 December 2011, case ref. No. SKO.41/4729/P/2010, the Local Government Appellate Court in Lublin quashed the decision of the authority of first instance in full and discontinued the proceedings due to expiry of the tax liability.

   On 14 May 2012, the District Prosecutor in Lublin filed with the Provincial Administrative Court in Lublin a complaint against the above decision of the Local Government Appellate Court in Lublin. By virtue of a decision of the Provincial Administrative Court in Lublin (I SA/Lu 499/12) of 21 September 2012, the proceedings in the case of the aforesaid complaint were suspended by the time the Supreme Administrative Court resolved a legal issue in the case I FPS 1/12. As on 3 December 2012 the Supreme Administrative Court passed a resolution of 7 judges resolving the legal issue in the aforesaid case, the Company requested the Provincial Administrative Court in Lublin to resume the suspended proceedings ex officio. By virtue of a decision of 24 January 2013 in case No. I SA/Lu 59/13, the Provincial Administrative Court in Lublin resumed the suspended proceedings.

   By virtue of a judgment of 20 February 2013, the Provincial Administrative Court in Lublin dismissed the complaint of the District Prosecutor in Lublin against the decision of the Local Government Appellate Court in Lublin of 14 December 2011. The Company applied to the Court requesting that the rationale for the aforesaid judgment be prepared in writing.

6. Proceedings to determine the amount of property tax for 2005, instigated by the Head of the Ludwin commune. On 20 October 2010, the Head of the commune issued a decision (case ref. No. Fn.3110/15-9/2010 2005) determining the amount of property tax for 2005 at PLN 405,401.90 and past due tax to amount to PLN 399,540.80. In addition, the Head of the Ludwin commune issued a decision on 12 November 2010 making the above decision immediately enforceable. The Company paid to the authority of first instance the amount of past due tax set in the decision referred to above along with interest. The Company appealed against the above decision. By virtue of a decision dated 19 April 2011, the Local Government Appellate Court quashed the decision of the authority of first instance and dismissed the proceedings. The Prosecutor filed with the Provincial Administrative Court in Lublin the appeal against the aforesaid decision to the Provincial Administrative Court in Lublin, case ref. No. I SA/Lu 581/11. The Provincial Administrative Court in Lublin, by virtue of a judgement dated 21 December 2011 quashed the above decision issued by the Local Government Appellate Court in Lublin. On 4 April 2012 the Company filed a cassation complaint against the aforesaid judgement with the Supreme Administrative Court.

   The complaint is currently being examined by the Supreme Administrative Court, case ref. No. II FSK 1145/12.

7. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Cyców commune. On 21 November 2011, the Head of the Cyców commune issued a decision (case ref. No. Fn.3123.1.7.2011) determining the amount of the Company's property tax for 2006 at PLN 1,549,849.20 and past due tax to amount to PLN 1,157,482.00. In addition, with the determination of 12 December 2011, the Head of the Cyców commune made the aforementioned decision immediately enforceable. On the basis of the aforesaid determination, the Head of the Cyców commune issued enforcement orders and filed a request with

the Head of Lublin Tax Office for instigation of administrative enforcement proceedings. The Company paid the enforcing authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision.

In its decision dated 28 November 2012, the Local Government Appellate Court quashed the decision of the authority of first instance and sent the case back for re-examination by the authority of first instance. The case is currently being re-examined by the authority of first instance.

8. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Ludwin commune. On 21 November 2011, the Head of the Ludwin commune issued a decision (case ref. No. FN. 3120.15.23.2011) determining the amount of the Company's property tax for 2006 at PLN 405,406.79 and past due tax to amount to PLN 399,540.79. In addition, with the determination of 12 December 2011, the Head of the Ludwin commune made the aforementioned decision immediately enforceable. On the basis of the aforesaid determination, the Head of the commune issued enforcement orders and filed a request with the Head of Lublin Tax Office for instigation of administrative enforcement proceedings. The Company paid the enforcing authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision.

   In its decision dated 28 November 2012, the Local Government Appellate Court quashed the decision of the authority of first instance and sent the case back for re-examination by the authority of first instance. The case is currently being re-examined by the authority of first instance.

9. Proceedings to determine the amount of property tax for 2006, instigated by the Head of the Puchaczów commune. On 18 November 2011, the Head of the Puchaczów commune issued a decision (case ref. No. PD-3110/92/06/07/08/09/2011) determining the amount of the Company's property tax for 2006 at PLN 9,280,318.00 and past due tax to amount to PLN 4,507,273.00. The Company paid the first instance authority the amount of tax arrears, plus interest, as specified in the aforesaid decision. On 21 December 2011, the Company filed with the Local Government Appellate Court the appeal against the aforesaid decision. In its order of 7 September 2012, the Local Government Appellate Court in Lublin extended the time-limit for handling the case until 7 November 2012.

   As the Company's appeal was not handled in a timely manner, on 10 January 2013 the Company sent to the Local Government Appellate Court in Lublin a reminder complaining against the failure to handle the case in due time and the excessive lengthiness of the proceedings.

   By virtue of a decision of 29 January 2013, the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full and discontinued the proceedings to determine the Company's property tax for 2006 due to expiry of the tax liability.

10. Proceedings to determine the amount of property tax for 2007, instigated by the Head of the Puchaczów commune. On 22 June 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings ex officio. Next, on 29 November 2012, the Head of the Puchaczów commune issued a decision determining the amount of the Company's property tax for 2007 at PLN 9,326,024.00 and past due tax to amount to PLN 4,586,751.00. The aforesaid decision was served to the Company on 30 November 2012. It was immediately enforceable and the Company paid the amount of tax arrears with interest on 5 December 2012.

    On 14 December 2012, the Company appealed against the aforesaid decision. Presently, the case is at the stage of examination of the Company's appeal.

11. Proceedings to determine the amount of property tax for 2007, instigated by the Head of the Ludwin commune. On 10 July 2012, the Head of the Ludwin commune issued a decision notifying about instigation of the aforesaid proceedings ex officio. Next, on 29 November 2012, the Head of the Ludwin commune issued a decision determining the amount of the Company's property tax for 2007 at PLN 405,451.00 and past due tax to amount to PLN 399,541.00. The aforesaid decision was served to the Company on 4 December 2012. It

was immediately enforceable and the Company paid the amount of tax arrears with interest on 10 December 2012.

On 18 December 2012, the Company appealed against the aforesaid decision. Presently, the case is at the stage of examination of the Company's appeal. On 4 March 2013, the Local Government Appellate Court in Lublin issued a decision informing that the anticipated completion date of the proceedings is 5 April 2013.

12. Proceedings to determine the amount of property tax for 2007, instigated by the Head of the Cyców commune. On 14 June 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings ex officio. Next, on 30 November 2012, the Head of the Cyców commune issued a decision determining the amount of the Company's property tax for 2007 at PLN 2,653,249.00 and past due tax to amount to PLN 2,239,582.00. The aforesaid decision was served to the Company on 4 December 2012.

    On 18 December 2012, the Company appealed against the aforesaid decision. Presently, the case is at the stage of examination of the Company's appeal.

13. Proceedings to determine the amount of property tax for 2011, instigated by the Head of the Puchaczów commune. On 30 April 2012, the Head of the Puchaczów commune issued a decision notifying about instigation of the aforesaid proceedings ex officio. Proceedings are pending before the first instance authority. On 25 February 2013, the Head of the Puchaczów commune issued a decision informing that the anticipated completion date of the proceedings is 30 April 2013.

14. Proceedings following the Company's request for return of the amount of PLN 350,440.65 collected as enforcement costs (covers enforcement costs collected from the Company by the Head of the Lublin Tax Office in Lublin on the enforced amount due under the decision of the Head of the Puchaczów commune determining the Company's property tax for 2004, which was subsequently quashed).

    On 6 February 2012, the Company requested the Head of the Lublin Tax Office in Lublin to return the aforesaid amount, collected as enforcement costs. On 22 March 2012, the Head of the Lublin Tax Office issued a decision refusing to instigate the proceedings. The complaint against the aforesaid decision filed by the Company on 17 April 2012 was not admitted as on 25 May 2012 the Director of the Fiscal Chamber in Lublin issued a decision and upheld the challenged decision of the Head of the Lublin Tax Office. On 2 July 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Director of the Fiscal Chamber in Lublin.

    By virtue of a judgment of 9 November 2012, case No. I SA/Lu 671/12, the Provincial Administrative Court in Lublin quashed both the decision of the Fiscal Chamber Director and the preceding decision of the Head of the Lublin Tax Office.

15. Proceedings following the Company's request for return of the amount of PLN 119,947.95 collected as enforcement costs (covers enforcement costs collected from the Company by the Head of the Lublin Tax Office in Lublin on the enforced amount due under the decision of the Head of the Cyców commune determining the Company's property tax for 2004, which was subsequently quashed).

    On 1 February 2012, the Company requested the Head of the Lublin Tax Office in Lublin to return the aforesaid enforcement amount. On 22 March 2012, the Head of the Lublin Tax Office issued a decision refusing to instigate the proceedings. The complaint against the aforesaid decision filed by the Company on 17 April 2012 was not admitted as on 25 May 2015 the Director of the Fiscal Chamber in Lublin issued a decision and upheld the challenged decision of the Head of the Lublin Tax Office. On 2 July 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Director of the Fiscal Chamber in Lublin.

    By virtue of a judgment of 9 November 2012, case No. I SA/Lu 672/12, the Provincial Administrative Court in Lublin quashed both the decision of the Fiscal Chamber Director and the preceding decision of the Head of the Lublin Tax Office.

16. Proceedings to return the overpayment (a part of the overpayment not returned to date) in property tax for 2003, including also interest on tax arrears plus interest for the period from the date of payment to the date of return, in the amount of PLN 760,178.00 (in respect of the Puchaczów commune). By virtue of a decision of

20 December 2011, the Head of the Puchaczów commune discontinued as unfounded the proceedings to return to the Company the aforesaid overpayment in real property tax for 2003. On 3 January 2012, the Company appealed against the aforesaid decision to the Local Government Appellate Court in Lublin.

By virtue of a decision of 22 October 2012, the Local Government Appellate Court in Lublin quashed the decision of the first instance authority in full, determined the overpayment in real property tax for 2003 in the amount of PLN 78,027.00, refused to find and determine the overpayment in that tax in the amount of PLN 600,654, and determined the interest on the overpayment calculated as at the date of decision issue in the amount of PLN 33,850.

The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision. Presently, the case is at the stage of examination of the complaint by the Provincial Administrative Court in Lublin, case No. I SA Lu 1004/12. The Provincial Administrative Court in Lublin has set the date of Court meeting at 27 March 2013.

17. Proceedings to return the overpayment in the amount of PLN 1,837,437.00 plus interest in property tax for 2005 (in respect of the Cyców commune). By virtue of a decision of 16 December 2011, the Local Government Appellate Court in Lublin quashed in full the decision of the Head of the Cyców commune, refusing to instigate the proceedings to return the overpayment in real property tax for 2005, and referred the case for re-examination by the first instance authority. In a decision of 21 May 2012, the Head of the Cyców commune informed the Company that the case would be handled by 20 July 2012. On 15 June 2012, the Company requested the Head of the Cyców commune in writing to remove violation of the law as regards the excessive lengthiness of the proceedings. In a letter of 28 June 2012, served on the Company on 17 July 2012, the Head of the Cyców commune presented a response to the aforesaid request to remove violation of the law.

    On 13 August 2012, the Company filed with the Provincial Administrative Court in Lublin a complaint against the failure of the tax authority to act and the excessive lengthiness of the tax proceedings to return the overpayment. By virtue of an order of 28 September 2012, the Provincial Administrative Court in Lublin divided the complaint filed by the Company into two separate complaints, and namely: case following the complaint against the authority's failure to act - case No. I SAB/LU 11/12, and case following the complaint against the excessively lengthy proceedings - case No. I SAB/LU 12/12 . Next, the Provincial Administrative Court in Lublin ordered that both of the aforesaid complaints be examined under one case No., i.e. I SAB/Lu 11/12, and by virtue of its judgment of 1 March 2013, rejected the aforesaid complaints by the Company finding that the measures of such type are not available to the Company in the said case.

    In a decision of 3 January 2013, the Head of the Cyców commune informed that the anticipated completion date of the proceedings is 28 February 2013. On 28 February 2013, the Head of the Cyców commune issued a decision wherein he refused to find and determine the overpayment in property tax for 2005 in the amount of PLN 1,837,43.00. The Company intends to appeal against the aforesaid decision. The date for filing the appeal expires on 20 March 2013.

18. Proceedings to return, by the Head of the Puchaczów commune, the overpayment in property tax for 2005 in the amount of PLN 4,942,035.30 plus due interest. In a decision of 18 May 2012, the Head of the Puchaczów commune suspended the proceedings to return the overpayment to the Company because of the need to resolve a preliminary issue first. The Company complained against the aforesaid decision to the Local Government Appellate Court in Lublin. By virtue of a decision of 18 September 2012 in case No. SKO.41/2753/P/2012, the Local Government Appellate Court in Lublin upheld the decision of the first instance authority. The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Local Government Appellate Court. By virtue of a judgment of 18 January 2013 in case No. I SA/Lu 956/12, the Provincial Administrative Court in Lublin quashed the challenged decision of the Local Government Appellate Court in full.

19. Proceedings to return, by the Head of the Ludwin commune, the overpayment in property tax for 2005 in the amount of PLN 636,657.08 plus due interest. In a decision of 27 January 2012, the Head of the Ludwin commune suspended the proceedings to return the overpayment to the Company because of the need to resolve a preliminary issue first. The Company complained against the aforesaid decision to the Local Government Appellate Court in Lublin. By virtue of a decision of 12 September 2012 in case No.

SKO.41/1360/P/2012, the Local Government Appellate Court in Lublin upheld the decision of the first instance authority. The Company filed with the Provincial Administrative Court in Lublin a complaint against the aforesaid decision of the Local Government Appellate Court. By virtue of a decision of 8 February 2013 in case No. I SA/Lu 898/12, the Provincial Administrative Court in Lublin quashed the challenged decision of the Local Government Appellate Court in full.

9.2.2.3. Enforcement proceedings

Presently, the Company is a party to enforcement proceedings for the total amount receivable of PLN 486,339.86

9.2.2.4. Proceedings in which the Company acts as an auxiliary prosecutor

Criminal proceedings in which the Company acts as an auxiliary prosecutor are held before the Regional Court in Gliwice, V Criminal Division, Local Unit in Wodzisław Śląski, case No. V K 105/09. The accused in the case are A. Kubat and M. Sitarz. Since the beginning of 2012 several Court meetings were held, the case is pending. The total value of damage incurred by LW BOGDANKA S.A. amounts to PLN 14,432,287.20.

9.2.2.5. Lawsuit filed by Mirosław Taras – former President of the Management Board of LW BOGDANKA S.A.

The Company granted to an attorney at law Marcin Radwan-Rohrenschef, a legal advisor Katarzyna Petruczenko and an attorney at law Bartosz Piechota from the law firm Radwan-RÖHRENSCHEF sp.k. a power of attorney ad litem to represent the Company in the proceedings held before the Regional Court in Lublin, case No. IX GC 470/12, initiated on 4 October 2012 by Mirosław Taras, former President of the Management Board of the Company (hereinafter the "Claimant").

The Claimant requests in the present case that resolution no. 21/VIII/2012 adopted by the Supervisory Board of the Company on 27 September 2012, removing him from the position of the President of the Management Board, be found invalid or quashed. In the Claimant's opinion, the resolution is invalid because of the infringement of good customs by the Supervisory Board, having powers, according to the Commercial Companies Code and the Articles of Association of the Company, to remove the President of the Management Board at any time. In addition, the Claimant points to the lack of any factual grounds for his removal.

On 27 December 2012, the Claimant extended the claim and requested that a resolution no. 33/VIII/2012 adopted by the Supervisory Board of the Company on 23 November 2012, appointing Mr Zbigniew Stopa as the President of the Management Board, be found invalid or quashed.

In the course of the proceedings evidence will be taken from witness testimonies and documents. The nearest Court meeting has been set at 25 June 2013.

The case concerns non property rights. Therefore, it is not possible to assess its financial consequences at present.

10. EXTERNAL INSPECTIONS AND AUDITS CARRIED OUT AT THE COMPANY

In 2012 the following inspections were conducted in the Company:

No.	Inspection body	Dates	Scope of the inspection
1.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	11 Jan. – 17 Jan. 2012	Inspection of the mining plant's blasting team, excavation workings, liquidation workings, and preparatory works in conditions of natural hazards, hazards deriving from electrical machines and equipment, electrical wiring, building structures, and OHS team
2.	State District Sanitary Inspectorate	24 Jan. – 28 Jan. 2012	Inspection of working conditions in the mining plant

	(Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna		
3.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	25 Jan. – 27 Jan. 2012	Inspection of preventing the risk of cave-in and rocks falling from the roof and side walls, compliance of work organisation with the relevant documentation and best mining practice
4.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	15 Feb. – 19 Feb. 2012	Limited inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment, electrical wiring, and building structures
5.	State District Sanitary Inspectorate (Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna	20 Feb. 2012	Regulatory inspection of the working conditions and overtime work of HCT department employees in Nadrybie
6.	Head of the Lubelski Tax Office in Lublin	14 March – 5 Apr. 2012	Inspection of the correctness of creation of the mining plant liquidation fund and of the associated write-offs as well as of recognising the fund's monies as cost of revenues for CIT purposes in the years 2005-2009
7.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	13 March – 16 March 2012	Inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment, electrical wiring, methane hazards, and measurement issues
8.	State Labour Inspection (Państwowa Inspekcja Pracy), Regional Labour Inspectorate (Okręgowy Inspektorat Pracy) in Lublin	19 March – 3 Apr. 2012	Inspection of compliance with labour law, including OHS regulations
9.	Office for Rail Transport (Urząd Transportu Kolejowego), Local Department in Lublin	20 March – 6 Apr. 2012	Inspection of the parameters of wagons in terms of type compliance
10.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	23 March 2012	Inspection of the setup of the mining plant's rescue station and procedures for performing welding work at the mining plant
11.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in Katowice	28 March – 30 March 2012	Inspection of mining shaft hoist in shaft 1.5 and its equipment
12.	State District Sanitary Inspectorate (Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna	3 Apr. 2012	Regulatory inspection
13.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	3 Apr. – 6 Apr. 2012	Limited inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment, electrical wiring, and geological issues

14.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	11 Apr. – 13 Apr. 2012	Ad hoc inspection in connection with examining the company's request for changing the conditions of permit to deviate from the requirements of Article 210.3 of the Regulation of the Minister of Economy on OHS, Operation, (...)
15.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	15 May – 18 May 2012	Limited inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, coal dust explosion hazard at the Mechanical Coal Processing Plant, hazards deriving from electrical machines and equipment, electrical wiring, mining damage, and building structures
16.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	22 May – 25 May 2012	Inspection of the correctness of geological services at the mining plant as regards identification and documentation of the geological conditions of deposits, correctness of preparing and supplementing measurement and geological documentation, compliance with the obligation to prevent the effects of mining on water circulation patterns in a mining area and to prevent its flooding, satisfaction of the operating conditions of shaft hoists, activities of service companies related to the operation of mining shaft hoists, inspection of actions aimed at improving safety in connection with the letter of 3 April 2012 from the Vice-President of the State Mining Authority to the President of LW BOGDANKA, satisfaction of the conditions of use of machinery and equipment at the Mechanical Coal Processing Plant
17.	State Labour Inspection (Państwowa Inspekcja Pracy) in Lublin	1 Jun. 2012	Inspection of compliance with labour law and OHS regulations
18.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	19 Jun. – 22 Jun. 2012	Inspection of the correctness of mining works, power machinery, fighting hazards arising from dust harmful to health
19.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in Katowice	24 Jun. – 26 Jun. 2012	Inspection of mining shaft hoists, and building structures at the mining plant
20.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	10 Jul. – 13 Jul. 2012	Limited inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment, building structures, and activity of the OHS team
21.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in Katowice	15.07-17.07.2012r.	Inspection of mining shaft hoists, building structures at the mining plant, shafts and small shafts with equipment
22.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	24 Jul. – 26 Jul. 2012	Inspection of mining issues – mining hazards related to preparatory works, in particular the cave-in, methane, coal dust explosion, and power machinery risk – hazards deriving from the company's machines and equipment, electrical hazard – deriving from the company's machines and equipment

23.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	7 Aug. – 10 Aug. 2012	Limited inspection of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment and electrical wiring, and building structures
24.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	14 Aug. – 17 Aug. 2012	Inspection of training, including OHS training of employees in connection with the safety circumstances at the mining plant, including an increase in the number of accidents related to the mining plant's operation
25.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in Katowice	19 Aug. – 22 Aug. 2012	Inspection of main fanning station, telephone exchanges and dispatch rooms, including communications systems, safety systems, warning systems, and main telecommunications networks
26.	Province Environmental Protection Inspector (Wojewódzki Inspektor Ochrony Środowiska) in Lublin	5 Sep. 2012	Inspection of environmental protection
27.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	5 Sep. – 7 Sep. 2012	Inspection of preventing the risk of cave-in and rocks falling from the roof and side walls, compliance of work organisation with the relevant documentation and best mining practice, analysis of OHS at the mining plant, assessment and documentation of occupational risk and use of preventive measures to reduce this risk, and the safety of drilling works
28.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	18 Sep. – 21 Sep. 2012	Inspection of mining issues – mining hazards related to preparatory works, in particular the cave-in, methane, coal dust explosion, and power machinery risk – hazards deriving from the company's machines and equipment
29.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in Katowice	23 Sep. – 25 Sep. 2012	Inspection of mining shaft hoists
30.	National Bank of Poland, Regional Branch in Lublin	26 Sep. 2012	Inspection of compliance with the obligation arising from the Foreign Exchange Law
31.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	10 Oct. – 12 Oct. 2012	Inspection of identification and monitoring of hazards, including hazards arising from dust harmful to health, assessment and documentation of occupational risk in working places and positions, activity of the OHS team, and employee training
32.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	22 Oct. – 26 Oct. 2012	Limited inspection of building, OHS and measurement issues, excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment and electrical wiring
33.	State Mining Authority (Wyższy Urząd Górniczy) in Katowice	25 Oct. – 26 Oct. 2012	Ad hoc inspection at the request of LW BOGDANKA S.A.
34.	Specialised Mining Office (Specjalistyczny Urząd Górniczy) in	29 Oct. – 30 Oct. 2012	Inspection of telephone exchange and dispatch room, including communications systems, safety systems, and main telecommunications networks

	Katowice		
35.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	22 Nov. – 30 Nov. 2012	Limited inspection, in building and geological terms, of excavation workings, liquidation workings, and preparatory works in the mining plant in conditions of natural hazards, hazards deriving from electrical machines and equipment and electrical wiring
36.	Province Environmental Protection Inspector (Wojewódzki Inspektor Ochrony Środowiska) in Lublin	29 Nov. – 18 Dec. 2012	Intervention inspection of noise emissions
37.	State District Sanitary Inspectorate (Państwowy Powiatowy Inspektorat Sanitarny) in Łęczna	12 Dec. – 14 Dec. 2012	Inspection of the health and safety conditions of the working environment
38.	Regional Mining Authority (Okręgowy Urząd Górniczy) in Lublin	11 Dec. – 14 Dec. 2012	Inspection of mining, power machinery, electrical wiring, measurement systems, and environmental protection

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.

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

11.1. 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.

11.2. 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 39 Advertising budget execution 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**

11.3. 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.

11.4. 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 registred 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.

11.5. 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. 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.

12. 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 40 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

13. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

13.1. 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.

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

Lubelski Węgiel BOGDANKA S.A. draws up separate and consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

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

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

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

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;

- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

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

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

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

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

Table 41 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**

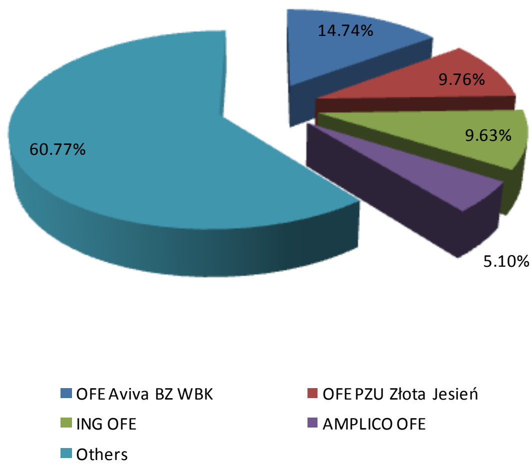
* According to the Notification received on 25 March 2010, described in Current Report No. 11/2010.

**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.



13.4. 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.

13.5. 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.

13.6. 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.

13.7. 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.

13.8. Governing bodies

13.8.1. Management Board

13.8.1.1. Description of rules regarding appointment and dismissal of management officers as well as their rights, and in particular the right to make a decision on the issue or purchase of shares

13.8.1.1.1 Appointment of Management Board members

Rules regarding the appointment and dismissal of the President and Vice-Presidents of the Management Board of Lubelski Węgiel BOGDANKA S.A. are governed by the Articles of Association of Lubelski Węgiel BOGDANKA S.A.;

Pursuant to the Articles of Association of Lubelski Węgiel BOGDANKA S.A., the Management Board shall be composed of 3 to 7 members, including the President of the Management Board and Vice-Presidents of the Management Board. Members of the Management Board shall be appointed for a joint term of office lasting 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.

13.8.1.1.2 Dismissal of Management Board members

In compliance with the Company's Articles of Association currently in effect, each Management Board member may be dismissed or suspended from office by the Supervisory Board.

13.8.1.2. Composition of the Management Board

13.8.1.2.1. Management Board for the 7th term of office

Table 42 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

13.8.1.2.2 Management Board for the 8th term of office

The Management Board for the 8th term of office appointed by the Supervisory Board shall consist of:

1.	Zbigniew Stopa	- President of the Management Board
2.	Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn	- Vice-President of the Management Board, Economic and Financial Affairs
3.	Waldemar Bernaciak	- Vice-President of the Management Board, Trade and Logistics
4.	Krzysztof Szlaga	- Member of the Management Board, Procurement and Investments

Zbigniew STOPA - President of the Management Board

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

Zbigniew Stopa's career has always been connected with Lubelski Węgiel BOGDANKA S.A. and its legal predecessors. In 1984-1985 he underwent a training programme underground, while from 1985 to 1987 he worked as an underground overman. In 1987 he was appointed to the position of an underground shift foreman, and towards the end of that year, to the position of an underground section foreman. In 1991-2006 he worked as an underground chief foreman. From May to December 2006 he served as the Manager of Mining Works of Nadrybie mining field. On 15 December 2006 he was appointed Vice–President of the Management Board - Production Director. On 27 September 2012, Mr Zbigniew Stopa was entrusted, by the Supervisory Board, with the task of acting President of the Management Board, and since 23 November 2011 Mr Zbigniew Stopa has been holding the position of the President of the Management Board of Lubelski Węgiel Bogdanka S.A.

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

Waldemar BERNACIAK - Vice-President of the Management Board for Trade and Logistics

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

From the outset his career has been in the mining industry. From 1979 to 1997 he was employed by Kombinat Budownictwa Górniczego WSCHÓD and its legal successors, where he held various positions, starting with a trainee miner, through an overman, shift foreman, section foreman, senior mining, engineering and construction specialist to the chief foreman (deputy mining works manager). For a decade, from 1997, he served as the Head of Materials and Machine Management Department at Lubelski Węgiel BOGDANKA S.A., while from February to August 2007 as the Head of Logistics. In August 2007 he was appointed Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. Next, for several months he served as the acting President of the Management Board – Managing Director. On 16 February 2008 he returned to the position of Vice–President of the Management Board - Director for Mine Expansion, Trade and Logistics. In October 2008 he was appointed Vice-President of the Management Board for Trade and Logistics and has held that position ever since.

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

Roger DE BAZELAIRE - Vice-President of the Management Board for Economic and Financial Affairs

Roger de Bazelaire has had more than 15 years of experience in investment and operational finance with companies operating in Central and Eastern Europe. In Poland since 1995, Mr Roger de Bazelaire worked with Dresdner Kleinwort Capital, as an Investment Director, in charge of restructuring and developing a portfolio of industrial companies (1995-2002). He subsequently joined Telekomunikacja Polska S.A., Poland's largest telecom operator listed on the Warsaw Stock Exchange, as Chief Financial Officer and member of the Management Board (2002-2005). In 2009-2011, Mr Roger de Bazelaire has been Chief Financial Officer and member of the Management Board with Canal + Cyfrowy, a leading platform of pay TV in Poland. Mr Roger de Bazelaire has also gained experience as Chief Financial Officer in Russia (telecom), Romania and Bulgaria (retail). Earlier in his career, Mr Roger de Bazelaire worked six years in accounting and finance on infrastructure projects in Latin America with the French construction group Spie-Batignolles.

A French national, Mr Roger de Bazelaire was born in 1955 and graduated with HEC Paris in business and finance (Master Grande Ecole - 1978) and with Universite de Paris – Sorbonne (BA in philosophy - 1979). In addition to his native French, Mr Roger de Bazelaire is fluent in English, Spanish and Polish.

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

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

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

Krzysztof SZLAGA – Member of the Management Board for Procurement and Investments

Mr Krzysztof Szlaga (36), in 2001 graduated from the University of Economics in Kraków, Faculty of Finance and Banking with an MA degree. In 2001 graduated from the University of Economics in Kraków, Faculty of Finance and Banking with an MA degree. In 2001 he also received a Diplom-Betriebswirt degree given by the University of Applied Sciences in Kiel (Germany), the Faculty of Economics.

Since 2001, Mr Krzysztof Szlaga was with KPMG Deutsche Treuhand-Gesellschaft, as Audit Senior at the Assurance Commercial Clients Department. In 2004 he joined Ernst & Young Audit Spółka z o.o., as Audit Senior at the Assurance and Business Services Department. In 2005-2008 he worked as Project Manager at the

Restructuring/Operational Excellence and Corporate Finance at Roland Berger Strategy Consultants Spółka z o.o. In 2008-2010 he performed as the Member of the Management Board, Supply Chain Management Director at CTL Logistics S.A. In 2010-2012 he was a Supply Chain Management Director at Ruch S.A.

Mr Krzysztof Szlaga has fluent command of German and English.

Lech TOR – Member of the Management Board elected by employees

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

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

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

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

13.8.1.3. Description of operations and authorisations

Pursuant to the Company's Articles of Association, the Management Board of LW BOGDANKA S.A. runs the Company's affairs, manages its assets and represents the Company outside with respect to third parties and before or out of court.

The operations of the Management Board shall be governed by the Rules of Procedure adopted by the Management Board and approved by the Supervisory Board. During the execution of their duties, members of the Management Board shall act in accordance with the provisions of the Company's Articles of Association and the principles of good practice, which the Company undertook to apply.

Any matters not reserved for the Supervisory Board or the General Shareholders Meeting by law or by the Company's Articles of Association shall fall within the scope of powers of the Management Board.

Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Any matters which fall outside the scope of the Company's ordinary course of business shall require a resolution of the Management Board.

In particular, without prejudice to the powers of the other governing bodies of the Company, the following issues shall require a resolution of the Management Board:

1. adopting the Rules of Procedure for the Management Board,
2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. disposing of and acquiring non-current assets with a value exceeding the PLN equivalent of EUR 50,000.00 (fifty thousand euro),
9. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

The Management Board's authority with regard to decisions concerning the issue or redemption of shares is limited: pursuant to the Articles of Association of LW BOGDANKA S.A., an increase in the share capital by means of an issue of new shares (registered or bearer shares), as well as mandatory redemption of shares pursuant to Article 418 of the Commercial Companies Code, require a resolution of the General Shareholders Meeting.

The Management Board of LW BOGDANKA S.A. pays due attention to transparency and efficiency of the management system of the Company and to the maintenance of its affairs in compliance with the provisions of law and good practice.

The Management Board provides the Supervisory Board with regular and exhaustive information on any material matters concerning the Company's activities as well as the risk connected with the Company's activities and the manners of managing such risk.

Declarations of will on behalf of the Company may be made by two members of the Management Board acting jointly, or by a member of the Management Board acting jointly with a proxy.

The appointment of a proxy shall require a resolution of the Management Board, adopted unanimously by its members. The power of proxy may be revoked by any and each of the Management Board members.

13.8.1.3.1 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.

13.8.1.3.2 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.
9.

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.

13.8.1.4. Information about Management Board meetings and the resolutions adopted

In the reporting year 2012 the Management Board appointed for the 7^{th} term held 77 minuted meetings and adopted the total of 1,580 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the

Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

13.8.1.5. Information on powers of proxy granted and revoked

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.

13.8.2. The Supervisory Board

13.8.2.1. Appointment and removal from office of the Supervisory Board members

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

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

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

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

13.8.2.2. Composition of the Supervisory Board

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting.

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.

13.8.2.3. Description of activities

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations. The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

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.

13.8.2.4. Audit Committee

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 Bedarski
3. Raimondo Eggink, Tomasz Mosiek

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

13.8.2.5. 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.

13.8.3. General Shareholders Meeting

13.8.3.1. 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.

13.8.3.2. Information of General Shareholders Meetings held in 2012

In 2012 two General Shareholders Meetings were held:

– Annual General Shareholders Meeting on 27 April 2012 held in the Company's registered office in Bogdanka

and

– Extraordinary General Shareholder Meeting on 28 June 2012 held in the Giełda Papierów Wartościowych w Warszawie S.A.'s (Warsaw Stock Exchange) registered office in Warsaw.

Agenda of the Annual General Shareholders Meeting of 27 April 2012:

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Electing the Ballot Counting Committee of the General Shareholders Meeting.
6. Adopting resolutions regarding amendments in the Company's Articles of Association.
7. Recognising the Financial Statements and Directors' Report on Operations of Lubelski Węgiel BOGDANKA S.A. for 2011.
8. Recognising the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group and the Consolidated Director's Report on Operations of the Lubelski Węgiel BOGDANKA Group for 2011.
9. Presentation of the Management Board's motion regarding the distribution of net profit for 2011.
10. Presentation of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2011.
11. Presentation of the Supervisory Board's Report on the assessment of the Company's the Financial Statements and Directors' Report on Operations for 2011, and the Management Board's motion regarding the distribution of net profit.
12. Presentation of the Supervisory Board's Report on the assessment of the Consolidated Financial Statements of the Group and the Director's Report on Operations of the Group for 2011 http://www.lw.com.pl/file,7972,sprawozdanie_rady_z_oceny_gk_lwb.pdf
13. Adopting resolutions on:
    (a) approval of the Financial Statements of Lubelski Węgiel BOGDANKA S.A. for 2011,
    (b) approval of the Directors' Report on Operations of the Lubelski Węgiel BOGDANKA S.A. for 2011,
    (c) approval of the Consolidated Financial Statements of the Lubelski Węgiel BOGDANKA Group for 2011,
    (d) approval of the Directors' Report on Operations of Lubelski Węgiel BOGDANKA Group for 2011,
    (e) granting discharge to the members of the Management Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2011,
    (f) approval of the Report on Operations of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. as the Company's governing body for 2011,
    (g) granting discharge to the members of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. for the performance of duties in 2011,
    (h) distribution of net profit for the financial year 2011,
    (i) specifying a dividend date and a date of the dividend payment.
14. Adopting resolutions on appointing members of the Supervisory Board for the 8^{th} term of office.
15. Miscellaneous.
16. Closing of the General Shareholders Meeting.

Agenda of the Extraordinary General Shareholders Meeting of 28 June 2012:

1. Opening of the General Shareholders Meeting.
2. Electing the Chairman of the General Shareholders Meeting.
3. Acknowledging the General Shareholders Meeting to be validly convened and acknowledging its capacity to adopt resolutions.
4. Adopting the agenda.
5. Adopting by the General Shareholders Meeting a resolution on amendments to the Company's Articles of Association.
6. Adopting a resolution on determining the rules and amounts of remuneration for the members of the Supervisory Board.
7. Miscellaneous.
8. Closing of the General Shareholders Meeting.

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

13.8.3.3. Dividend policy

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

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

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

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

13.8.3.3.1 ***Dividend for 2005***

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

13.8.3.3.2 Dividend for 2006

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

13.8.3.3.3 Dividend for 2007

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

13.8.3.3.4 Dividend for 2008

On 31 March 2009, the Management Board of LW BOGDANKA S.A. adopted a resolution on making a request to the General Shareholders Meeting regarding the distribution of net profit for 2008. The Management Board proposed that the net profit generated by the Company in the amount of 118,370,160 was allocated in full to the capital reserve of the Company for the purpose of financing investments planned for 2009, in line with the Technical and Economic Plan adopted by the Company for 2009. On 17 April 2009, the Supervisory Board adopted a resolution accepting the proposition of the Management Board regarding the distribution of net profit for 2008. Under the resolution of 15 May 2009 regarding the distribution of net profit for 2008 generated by the Company amounting to PLN 118,370,160, 75.05%, i.e. PLN 88,832,460 was allocated for the payment of dividend for the Company's shareholders. The value of dividend per share amounted to PLN 3.86.

13.8.3.3.5 Dividend for 2009

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

13.8.3.3.6 Dividend for 2010

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

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

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

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

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

13.8.3.3.7 Dividend for 2011

On 27 April 2012, the Company's Annual General Shareholders Meeting adopted a resolution on the distribution of net profit for 2011.

The net profit generated by the Company in 2011 amounting to PLN 218,977,735.69 (two hundred and eighteen million nine hundred and seventy-seven thousand seven hundred thirty five zlotys 69/100) shall be distributed by the Annual General Shareholders Meeting as follows:

1. The amount of PLN 136,054,360.00 (one hundred and thirty-six million fifty-four thousand three hundred and sixty zlotys) – for distribution to the shareholders, i.e. for dividend payment in the amount of PLN 4 (four zlotys 00/100) per one share.
2. The amount of PLN 82,923,375.69 (eighty-two million nine hundred and twenty-three thousand three hundred and seventy-five zlotys 69/100) - to the Company's reserve capital.

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

   The General Shareholders Meeting set the dividend date for 18 May 2012 and dividend payment date for 14 August 2012, as per a request filed by a Company's shareholder during the Annual General Shareholders Meeting. As a result, the period between the dividend date and the dividend payment date exceeds 15 business days and is incompliant with Rule IV.6 of the Code of Best Practice for WSE Listed Companies, which is attached as an Appendix to Resolution No. 20/1287/2011 of the WSE Board of 19

October 2011. The shareholder's rationale behind the extension of the time lapse recommended by the Code of Best Practice is that the Company needs time for collecting funds necessary for the payment of the dividend.

2. 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