DIRECTORS' REPORT ON OPERATIONS OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the first quarter of 2013 ended on 31 March 2013

BOGDANKA, May 2013

1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 9 May 2013, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", the "Lubelski Węgiel BOGDANKA Group", or the "LW BOGDANKA Group") consisted of Lubelski Węgiel BOGDANKA S.A. (hereinafter referred to as "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA S.A.", "LWB S.A.", "Parent Undertaking") as the parent undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka", "subsidiary undertaking", "ŁE") and EkoTRANS Bogdanka Sp. z o.o., as the subsidiary undertakings.

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

As at the date of submitting this Report, i.e. 9 May 2013, LW BOGDANKA S.A. also held 24.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., the company in bankruptcy, with a share capital of PLN 750,000. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2 Information on the undertakings of the Lubelski Węgiel BOGDANKA Group subject to consolidation

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the condensed quarterly consolidated financial statements of the LW BOGDANKA Group for the first quarter of 2013 (hereinafter referred to as the "condensed quarterly consolidated financial statements") by the full consolidation method.

1.2.1 Information on the Parent Undertaking of the Lubelski Węgiel BOGDANKA Group

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

Address: Bogdanka, 21-013 Puchaczów, Lublin Province

Tel. (81) 462 51 00, (81) 462 51 01

Fax: (81) 462 51 91

Website: www.lw.com.pl

e-mail: bogdanka@lw.com.pl

Industry Identification Number (REGON): 430309210

Tax Reg. No. 713-000-57-84

Business activities:

The scope of the Company'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) financial 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 framework of utilising Carboniferous rock waste stone in the EkoKLINKIER Construction Ceramics Plant.

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

1.2.2 Information on the subsidiary and associated undertakings

Direct subsidiary undertaking:

Łęczyńska Energetyka sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. (81) 443 11 02, (81) 462 55 53
Fax: (81) 443 11 01
Website: www.lebog.com.pl
e-mail: biuro@lebog.com.pl
Industry Identification Number (REGON): 004164490
Tax Reg. No. 713-020-71-92

Share capital (as at **31 March 2013**): PLN 82,677,000.00 divided into 82,677 shares of PLN 1,000.

Shareholding structure:

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

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

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management.

The Group's associated undertaking:

EKSPERT Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. (81) 462 20 62
Fax: (81) 462 20 62
Website: -
e-mail: wkekspert@wp.pl
Industry Identification Number (REGON): 432693862
Tax Reg. No. 505-000-15-99

Since the publication of the annual consolidated financial statements for 2012, the legal status has not changed (liquidation procedure of Ekspert Sp. z o.o. is pending). In connection with the above, Ekspert sp. z o.o. has not been included in the consolidation.

1.3 Changes in the structure of the Lubelski Węgiel BOGDANKA Group and in organisational and capital associations of the Parent Undertaking with other entities, and the effects of changes in the structure of LW BOGDANKA S.A., including as a result of merging business units, the take over or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first quarter of 2013 there were no changes in the structure of LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In that period there were also no changes in the structure of the LW BOGDANKA Group due to the merger of business units, the takeover or sale of units of the Group, long-term investments or the division, restructuring or discontinuation of activities.

On 10 April 2013, the Parent Undertaking established a company under the business name: EkoTRANS Bogdanka Sp. z o. o. with registered office in Bogdanka, pursuant to a notarial deed Rep. A No. 1302/2013. All shares in the company were taken up by the Parent Undertaking. On 24 April 2013, the Parent Undertaking paid the amount of PLN 100,000 to cover the above shares. The main business activity of EkoTRANS Bogdanka Sp. z o. o. is comprehensive organisation of the process of transport and recovery of waste arising during coal associated shale washing.

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE THIRD QUARTER OF 2012

2.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly through subsidiaries, as at the date of submitting the semi-annual report, and changes in the ownership structure of substantial shareholdings in the period from the publication of the last quarterly report.

Table 1 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous periodic reports, i.e. 9 May 2013, 21 March 2013 and 7 November 2012

Shareholder	9 May 2013		21 March 2013		7 November 2012	
	Number of shares/ Number of votes at the GSM	Share in share capital (%)	Number of shares/ Number of votes at the GSM	Share in share capital (%)	Number of shares/ Number of votes at the GSM	Share in share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,014,644	14.74	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	3,320,377	9.76
ING Otwarty Fundusz Emerytalny***	3,275,953	9.63	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10	1,734,194	5.10
OTHER	20,668,422	60.77	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**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.

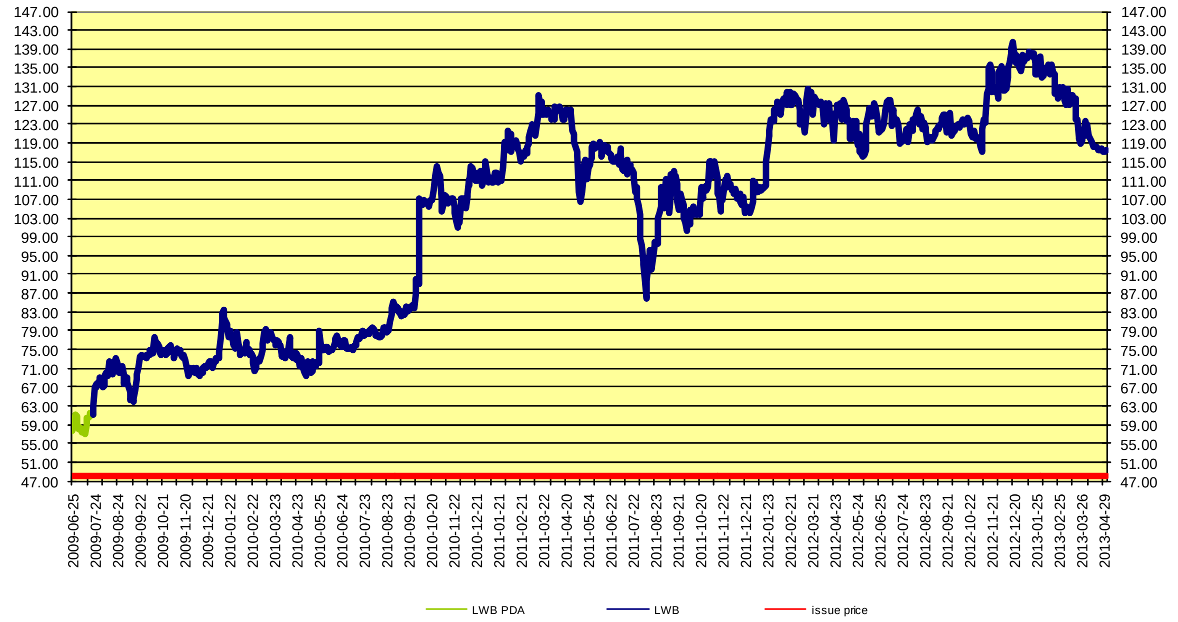
2.2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the quarterly report and indication of the changes in shareholdings in the period from submitting the previous periodic report, separately for each person

Table 2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the quarterly report and indication of the changes in shareholdings in the period from submitting the previous periodic report, separately for each person

	Number of shares as at the date of submitting the Report for 2012 (21 March 2013)	**Number of shares as at the date of submitting the Report for 1Q 2013 (9 May 2013)**
Management Board		
Zbigniew Stopa	5,703	5,703
Krystyna Borkowska	1,299	1,299
Roger de Bazelaire	0	0
Waldemar Bernaciak	2,162	2,162
Krzysztof Szlaga	0	0
Lech Tor	1,124	1,124
The Supervisory Board appointed at the Annual General Shareholders Meeting (27 April 2012)		
Witold Daniłowicz	0	0
Stefan Kawalec	0	0
Raimondo Eggink	0	0
Eryk Karski	0	0
Tomasz Mosiek	0	0
Robert Bednarski	0	0
Dariusz Formela	0	0

2.3 Price of Rights to Shares/Shares of the Company since its debut on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Chart - Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 7 May 2013



3. PRINCIPLES OF DRAWING UP THE GROUP'S CONDENSED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

The condensed quarterly consolidated financial statements were prepared in accordance with IAS 34 – Interim Financial Reporting and with relevant accounting standards applicable to the interim financial reporting endorsed by the European Union, published and applicable as at 31 March 2013.

Data for the condensed interim financial statements has been prepared in compliance with the same accounting principles and calculation methods as in the previous annual financial statements, with adjustment of comparable period to the change of accounting principles and presentation.

In accordance with amendments to IAS 1 "Presentation of Financial Statements" regarding presentation of items in "Other Comprehensive Income", the Group introduced, as at 1 January 2013, a modification with respect to presentation of profit / loss and other comprehensive income of the interim consolidated and separate financial statements in the form of two consecutive documents, i.e. consolidated and separate statement of profit / loss and consolidated and separate statement of comprehensive income.
Modifications introduced with regard to presentation had no influence to the values of financial data presented in these condensed interim financial statements for the reporting period of the first quarter ended on 31 March 2013 and the comparative reporting period of the first quarter ended on 31 March 2012.

The Group complies with the changes introduced as at 1 January 2013 to IAS 19 – "Employee benefits". The changes introduced in the Group referred to the recognition of actuarial gains and losses on revaluation of benefit schemes after the period of employment in other comprehensive income, and not - as previously – in the profit or loss. The presented financial statements were not affected by the application of the standard in the condensed interim financial statements as at 31 March 2013, due to the fact that provisions are valued once a year.

In the presented period, the Group did not introduce material changes in value of the estimated amounts which were presented for the preceding financial year.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONSOLIDATED ABRIDGED QUARTERLY FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST QUARTER OF 2013, I.E. FROM 1 JANUARY 2013 TO 31 MARCH 2013.

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2013 to 31 March 2013, calculated on the basis of the financial data included in the LW BOGDANKA Group's condensed quarterly consolidated financial statements, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union.

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.

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

Systematic works are done in order to optimise the extraction process (both from the point of applied technology and the maximisation of production output with current geological conditions). Works are carried out to make available new extraction workings in order to ensure continuous extraction in the following years. Subsequent stages of the Company's main investment programme are implemented in order to achieve the assumed issue objectives.

4.1 Selected financial information

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

Item	Q1 2013	Q1 2012	Change [%] (2013/2012)
Revenue on sales	430,758	477,302	-9.75%
Gross profit	120,792	175,929	-31.34%
EBITDA	170,336	199,046	-14.42%
EBIT (Operating profit)	87,438	119,297	-26.71%
Profit before taxation	87,429	123,703	-29.32%
Net profit	69,926	99,210	-29.52%
Operating cash flow	133,391	202,734	-34.20%
Investing cash flow	-173,816	-138,662	25.35%
Financing cash flow	-5,762	50,000	-

Table 4 Selected financial information of the LW BOGDANKA Group – cont. [PLN '000]

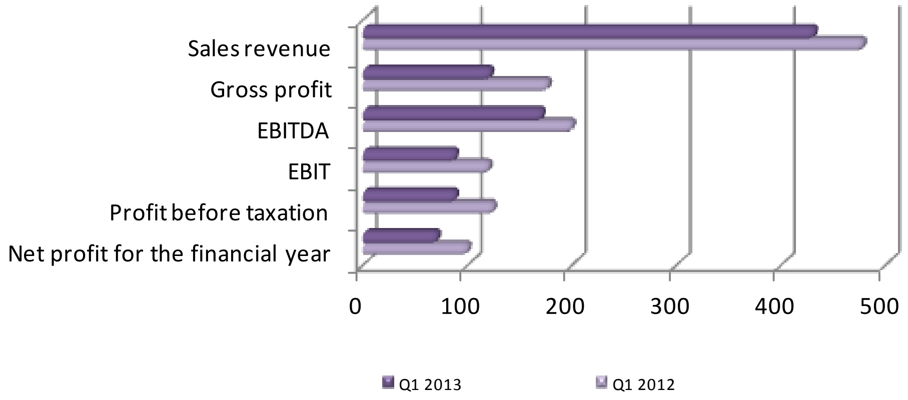
Item	31 Mar. 2013	Structure of the balance sheet	31 Dec. 2012	Structure of the balance sheet	Change [%] (2013/2012)
Total assets	3,505,889	100.00%	3,485,156	100.00%	0.59%
Non-current assets	3,085,581	88.01%	3,063,653	87.91%	0.72%
Current assets	420,308	11.99%	421,503	12.09%	-0.28%
Shareholders' equity	2,366,300	67.50%	2,296,374	65.89%	3.05%
Provisions and liabilities	1,139,589	32.50%	1,188,782	34.11%	-4.14%

The financial statements prepared for the period from 1 January 2013 to 31 March 2013 show that the Lubelski Węgiel BOGDANKA Group's revenue on sales amounts to PLN 430,758,000, which represents a decrease by 9.75%, or by PLN 46,544,000, compared to the same period of the previous year.

For 3 months of 2013 the Group's operating profit decreased from PLN 119,297,000 to PLN 87,438,000 (-26.71% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) for the period from 1 January to 31 March 2013 amounted to PLN 170,336,000 compared to PLN 199,046,000 in the same period of

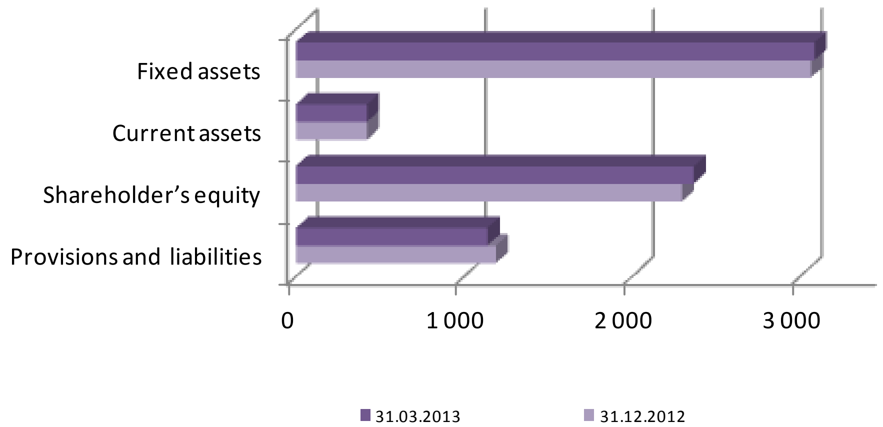
2012. A decrease in the operating profit is a consequence of negative dynamics of revenue on sales as compared to positive dynamics of costs of sold products, goods and raw materials, as well as selling costs and administrative costs.

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



The net profit for the first quarter of 2013 amounted to PLN 69,926,000 as compared to PLN 99,210,000 in an analogous period in 2012, which means that it was lower by 29.52%, i.e. PLN 29,284,000.

Analysis of the statement of financial position (PLN million)



The Group's consolidated statement of financial position as at 31 March 2013 shows an increase in the balance-sheet total to PLN 3,505,889,000, i.e. by PLN 20,733,000, compared to the figure as at 31 December 2012. The value of fixed assets went up from PLN 3,063,653,000 (31 December 2012) to PLN 3,085,581,000 (31 March 2013). This increase is mostly the result of the Parent Undertaking's implementing an investment programme. In addition, the value of funds deposited under the Mine Closure Fund increased (interest accrued on account of funds held on bank deposits was added).

In the analysed period, the value of current assets went down from PLN 421,503,000 to PLN 420,308,000 (PLN -1,195,000, -0.28%) – mostly as a consequence of a decrease in cash and in income tax overpayment, with a simultaneous increase in trade and other receivables as well as the value of held stocks.

The increase in the value of fixed assets by PLN 21,928,000 affected very slightly the structure of basic asset items. The share of fixed assets went up from 87.91% (31 December 2012) to 88.01% (31 March 2013). At the same time, the share of current assets went down from 12.09% (31 December 2012) to 11.99% (31 March 2013).

On the side of equity & liabilities, shareholders' equity increased to PLN 2,366,300,000 (i.e. by 3.05%). This is a consequence of adding the net result for 3 months of 2013 to the shareholders' equity. In the analysed period the Group's total provisions and liabilities dropped by PLN 49,193,000, as a result of: a decrease in long-term liabilities by PLN 45,479,000 (to PLN 727,629,000);

- a decrease in short-term liabilities by PLN 3,714,000 (to PLN 411,960,000).

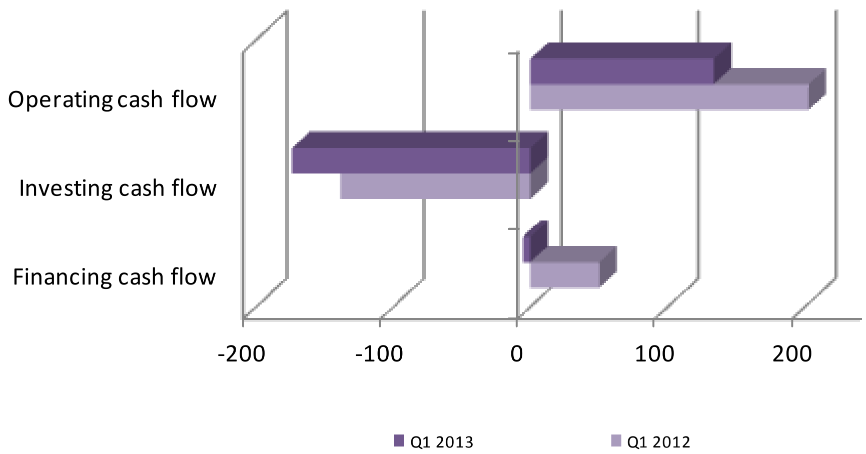
Under long-term liabilities, the value of loans and borrowings went down by PLN 50,000,000 – in connection with reclassifying a portion of the loans from long-term into short-term category (with maturity within the nearest 12 months). Liabilities on account of employment benefits went up because of increased employment in the Parent Undertaking.

Under short-term liabilities, the value of trade and other liabilities went down by PLN 46,761,000 (in February 2013 the purchase of the last ploughing system was accounted for); and the value of loans and borrowings went up by PLN 45,000,000 (in connection with reclassifying a portion of the loans from long-term into short-term category and repayment of one tranche of the loan in Q1 2013 – PLN 5,000,000).

The share of equity in the total value of equity & liabilities as of 31 March 2013 and 31 December 2012 amounted to 67.50% and 65.89%, respectively.

In the first quarter of 2013, the Group financed its activities with operating cash flow and cash from a working loan. The value of net cash flows from operating activities fell from PLN 202,734,000 (for 1 quarter of 2012) to PLN 133,391,000 (for 1 quarter of 2013). Lower operating cash flows resulted from lower income from the analysed period, a higher level of stocks and a difference between reserves and liabilities.

Analysis of the cash flow statement (PLN million)



Between 1 January 2013 and 31 March 2013 net cash flows from investing activities amounted to PLN -173,816,000 and were higher than those from analogous period of 2012 by PLN 35,154,000. Higher investing cash flows result from a greater change in investment liabilities for Q1 2013 as compared to analogous period of 2012.

Between January and March 2013, the Group generated negative net financing cash flows in the amount of PLN 5,762,000 (in the analysed period, one loan instalment and interest from granted loans were paid), whereas in the previous year the Group generated positive financing cash flows (disbursement of the working loan instalment).

As at 31 March 2013, the value of cash at hand and in banks amounted to PLN 74,364,000 and was lower by PLN 142,528,000 with respect to the analogous data of the previous year.

4.2 Information on the current financial position of the Group

4.2.1 Coal production and sales

During 3 months of 2013 (similarly as in the previous periods) the revenue on sales generated by the Group was determined mostly by net extraction and sales of commercial coal by the Parent Undertaking.

In the first quarter of 2013 the gross production amounted to 2,964,390 tonnes, compared to 3,021,410 tonnes in the same period of 2012. The presented decrease in production output is connected mostly with a lower number of extraction days in 2013 in relation to 2012 (by one day).

Works are carried out all the time to make available new extraction workings in order to ensure continuous extraction in the following years. In the period from 1 January 2013 to 31 March 2013, 6.84 km of galleries was completed, compared to 5.86 km in the same period of the previous year (year-to-year change +0.98 km, i.e. +16.7%).

Table 5 Net production of the LW BOGDANKA Group for 1 quarter of 2013 and 1 quarter of 2012 ('000 tonnes)

Q1 2013	Q1 2012	Change [%] (2013/2012)
2,031.76	2,180.64	-6.83%

In the period from 1 January 2013 to 31 March 2013 the extraction of commercial coal, compared to the same period of 2012, went down by 6.83% and was 2,031,760 tonnes (previous year: 2,180,640 tonnes). The presented decrease in the extraction of commercial coal is connected with less advantageous geological structure of extracted deposits and already noted lower number of production days. The presented net production enabled to achieve the following yield ratios (respectively for Q1 2013 and Q1 2012): 68.5% and 72.2%.

Table 6 Sale of coal of the LW BOGDANKA Group for 1 quarter of 2013 and 1 quarter of 2012 (‘000 tonnes)

Q1 2013	Q1 2012	Change [%] (2013/2012)
1,859.16	2,082.91	-10.74%

In the period from 1 January to 31 March 2013, 10.74% (223,750 tonnes) less coal was sold as compared to the analogous period of the previous year. In 2013, sale of commercial coal was also lower than net coal production – it resulted in an increase in the stocks of coal held.

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

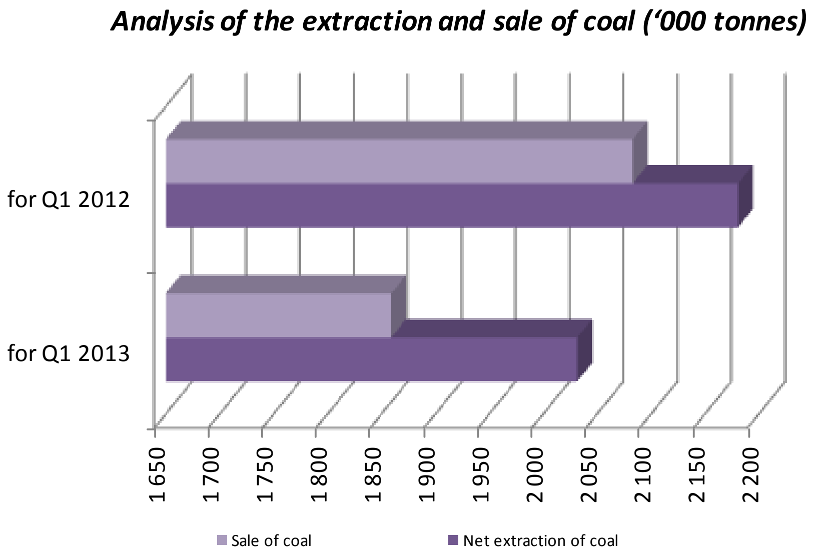


Table 7 Structure of sales of the commercial coal by the LW BOGDANKA Group for 1 quarter of 2013 and 1 quarter of 2012

Sales structure	Q1 2013	Q1 2012	Change (%) [2013/2012]
Fine coal	98.66%	98.23%	0.44%
Nut coal	0.33%	0.04%	725.00%
Pea coal	1.01%	1.73%	-41.62%
Total	**100.00%**	**100.00%**	**-**

In the period from 1 January 2013 to 31 March 2013 the Group sold 1,859,160 tonnes of commercial coal, with predominant assortment of sale being fine coal, a share of which in the total sales was 98.66% (98.23% in the same period of the previous year). A share of medium coal went down from 1.73% (in 2012) to 1.01% (in 2013). Nut coal has the lowest share in the quantitative structure of sales of commercial coal, which is 0.33% in the aggregate sales in 2013.

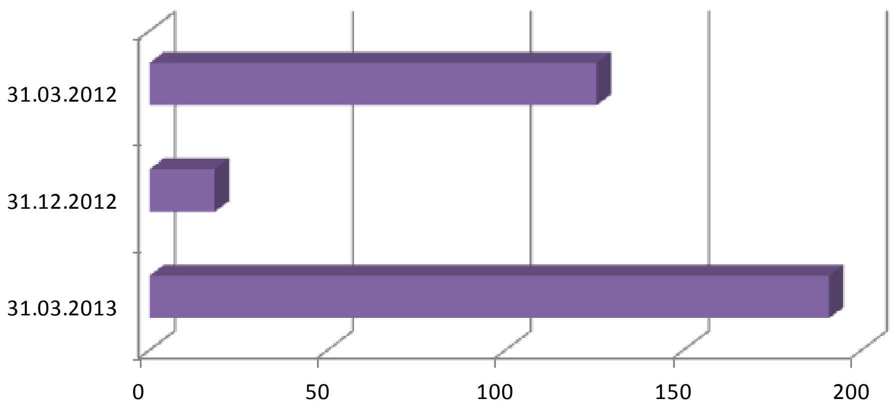
4.2.2 Stocks

The balance of stocks of commercial coal held by the Parent Undertaking as at 31 March 2013 was 190,906.92 tonnes, compared to 18,327.54 tonnes as at 31 December 2012 and 125,581.59 tonnes as at 31 March 2013 – it means that during the first three months of 2013 the stock of coal in the Parent Undertaking went up by 172,579.38 tonnes. The level of stock presented at the end of the first quarter of 2013 corresponds to a seven-day production by the Parent Undertaking.

Table 8 Stock of coal [tonnes]

Item	31 Mar. 2013	31 Dec. 2012	31 Mar. 2012	Change [%] (31 Mar. 2013/ 31 Mar. 2012)	Change [%] (31 Mar. 2013/ 31 Mar. 2012)
Stocks of coal	190,906.92	18,327.54	125,581.59	941.64%	52.02%

Stock of coal ('000 tonnes)



4.2.3 Revenue on sales

During the first quarter of 2013, LW BOGDANKA Group's revenue on sales was at a level of PLN 430,758,000 – it was lower by PLN 46,544,000 than revenue obtained in the same period of 2012.

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

The main source of sales revenue for the LW BOGDANKA Group in the first quarter of 2013 (as well as in the first quarter of 2012) was production and sale of power coal. From 1 January to 31 March 2013, sales of power coal accounted for 95.33% of the LW BOGDANKA Group's sales revenue (96.87% in the same period of the previous year). A drop in revenue on coal sales was caused by a smaller amount of coal sold (-10.74%), at a higher unit average sale price. In the consolidated financial statements published by the Group, for presentation purposes data in the profit and loss account concerning revenue on sales of coal and costs of products, goods and materials sold are adjusted (*in minus*) by the value of sold coal that was obtained during drilling of excavations. Having regard to the foregoing, the values disclosed in the separate profit and loss account for the period from 1 January 2013 to 31 March 2013 were adjusted by PLN 25,312,090, whereas in the same period of the previous year - by PLN 22,711,420.

Over 80% of the sales of coal (in terms of value) realised in the period from 1 January 2013 to 31 March 2013 (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 revenue from other activities accounted for 3.97% of the total revenue in the period from 1 January to 31 March 2013, compared to 2.18% a year earlier; a significant share in that group of revenue was held by revenue connected with the services of coal transport provided by the Parent Undertaking for the benefit of one of the customers, revenue of Łęczyńska Energetyka from sale of heat and other services, as well as revenue on lease of fixed assets.

Revenue on sales of goods and materials increased in the analysed period by 0.22%, i.e. by PLN 6,000. In the analysed period of 2013 and 2012, the dominant position in the amount was revenue from sales of scrap.

The share of revenue from the sale of ceramics in total revenue on sales decreased from 0.39% to 0.08% of the Group's total revenue.

Table 9 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group
(PLN '000)

Item	Q1 2013	Q1 2012	Change [%] (2013/2012)
Sales of coal	410,624	462,340	-11.19%
Sales of ceramics	336	1,889	-82.21%
Other activities	17,111	10,392	64.66%
Sales of goods and materials	2,687	2,681	0.22%
Total revenue on sales	**430,758**	**477,302**	**-9.75%**

Table 10 Revenue on sales of the LW BOGDANKA Group - structure by product types

Item	Q1 2013	% share	Q1 2012	% share
Sales of coal	410,624	95.33%	462,340	96.87%
Sales of ceramics	336	0.08%	1,889	0.39%
Other activities	17,111	3.97%	10,392	2.18%
Sales of goods and materials	2,687	0.62%	2,681	0.56%
Total revenue on sales	**430,758**	**100.00%**	**477,302**	**100.00%**

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. During the analysed period of both 2013 and 2012, export sales constituted a fraction of revenues generated and concerned only sales of ceramics. The share of export sales in total revenue on sales did not exceed 0.05%.

Table 11 Geographical structure of revenue on sales of the LW BOGDANKA Group

Item	Q1 2013	% share	Q1 2012	% share
Domestic sales	430,720	99.99%	477,158	99.97%
Foreign sales	38	0.01%	144	0.03%
Total revenue on sales	**430,758**	**100.00%**	**477,302**	**100.00%**

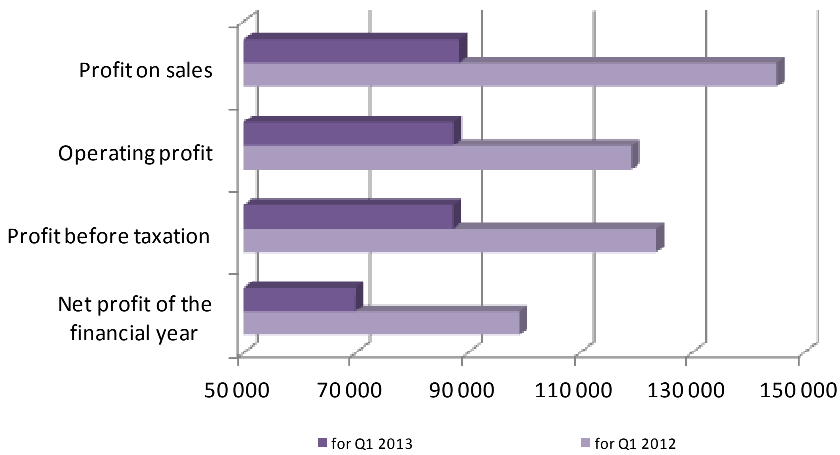
4.2.4 Statement of comprehensive income of the Group

From 1 January to 31 March 2013, revenue on sales of the LW BOGDANKA Group, as compared to the same period of the previous year, decreased by 9.75% (to a level of PLN 430,758,000). In the same period, the Group's costs (costs of products, goods and materials sold along with cost of sales and administrative expenses) increased by 3.06% up to a level of PLN 342,249,000. Such dynamics in costs and revenue resulted in the profit on sales decreasing by 39.05%, i.e. PLN 88,509,000 for three months of 2013, as compared to PLN 145,211,000 for the same period of 2012.

Table 12 Selected items of the statement of comprehensive income of the LW BOGDANKA Group

Item	Q1 2013	Q1 2012	Change % (2013/2012)
Revenue on sales	430,758	477,302	-9.75%
Cost of products, goods and materials sold, cost of sales, administrative expenses	342,249	332,091	3.06%
Profit on sales	**88,509**	**145,211**	**-39.05%**
Other income	2,427	784	209.57%
Other expenses	356	240	48.33%
Other net profit/loss	-3,142	-26,458	-88.12%
Operating profit	**87,438**	**119,297**	**-26.71%**
Financial income	1,268	4,409	-71.24%
Financial expenses	1,277	3	42466.67%
Share in (losses)/profits of associated			-
Profit before taxation	**87,429**	**123,703**	**-29.32%**
Income tax	17,503	24,493	-28.54%
Net profit	**69,926**	**99,210**	**-29.52%**
- attributable to shareholders of the Parent	69,694	99,106	-29.68%

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



<u>Other income</u>

In the first quarter of 2013, other operating revenues amounted to PLN 2,427,000 compared to PLN 784,000 for the same period of the previous year – this means an increase in their value by 209.57%. An amount of PLN 2,427,000 was primarily recorded as income from released special-purpose provisions).

Other expenses and other net profit/loss

For 3 months of 2013, other expenses amounted to PLN 356,000 compared to PLN 240,000 incurred in the same period in 2012 – this means an increase of 48.33%. In 2013, the expenditure for compensations, enforcement fees and penalties was higher by PLN 116,000.

In the analysed period of 2013, other net profits/losses amounted to PLN -3,142,000 compared to PLN -26,458,000 for the same period in 2012 – in 2013 lower special purpose provisions were created (in 2012 a provision was created for claims regarding with future investment liabilities in connection with accounting for additional and replacement works completed by Mostostal Warszawa S.A. to the facility of the Parent Undertaking – Mechanical Coal Processing Plant in Bogdanka).

Having taken into account profit on sales, other income, expenses and other net profits/losses, we arrive at operating profit (EBIT) for the first quarter of 2013 at a level of PLN 87,438,000, which is lower than that for the previous year by 26.71%, i.e. by PLN 31,859,000.

Financial income

Financial income for 3 months of 2013 amounted to PLN 1,268,000 compared to PLN 4,409,000 a year ago (decrease of 71.24%). Change of financial income is a result of lower average annual level of cash in the Group.

Financial expenses

Financial expenses in the analysed period of 2013 amounted to PLN 1,277,000, compared to PLN 3,000 a year earlier (an increase by PLN 1,274,000). In Q1 2013 a portion of interest was charged against the costs of the period, while a year before all interest increased the value of expenditure for fixed assets in construction.

The result before taxation for 3 months of 2013 is lower by 29.32% than a year ago – profit before taxation for the first quarter of 2013 amounted to PLN 87,429,000 compared to PLN 123,703,000 for the first quarter of 2012.

Obligatory appropriations of the result in form of corporate income tax resulted in generating net profit for the financial period from 1 January 2013 to 31 March 2013 in the amount of PLN 69,926,000 as compared to PLN 99,210,000 for the same period in 2012 – year-to-year net profit of the Group went down by 29.52%.

4.2.5 The Group's profitability

Table 13 Profitability ratios of the LW BOGDANKA Group

Item	Q1 2013	Q1 2012	Change [p.p.] 2013-2012	Change [%] (2013/2012)
Gross margin on sales	28.04%	36.86%	-8.82	-23.93%
EBITDA	39.54%	41.70%	-2.16	-5.18%
EBIT	20.30%	24.99%	-4.69	-18.77%
Gross margin	20.30%	25.92%	-5.62	-21.68%
Net margin	16.23%	20.79%	-4.56	-21.93%
Return on Assets	2.00%	3.13%	-1.13	-36.10%
Return on Equity	3.00%	4.53%	-1.53	-33.77%

Gross margin on sales of the LW BOGDANKA Group decreased from 36.86% (for Q1 2012) to 28.04% (for Q1 2013). The decrease in that ratio resulted from a negative dynamics of revenues relative to the positive dynamics of incurred costs, and products, goods and materials sold.

In the analysed period EBIT (operating profit) amounted to 20.30%, which means a decrease by 4.69 p.p. compared to the same period of the previous year. Apart from the reasons described in gross margins on sales, the change in value of the described ratio results also from higher sales and administrative costs.

EBITDA dropped from 41.70% (first quarter of 2012) to 39.54% (first quarter of 2013). Group's depreciation and amortisation for the first quarter of 2013 amounted to PLN 82,898,000, as compared to PLN 79,749,000 in the previous year.

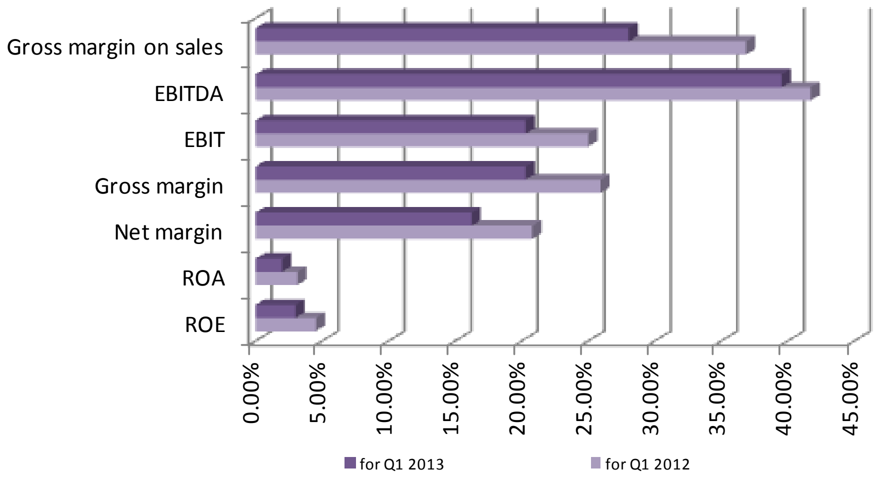
The gross profitability for the first quarter of 2013 amounted to 20.30% and was 5.62 p.p. lower than the gross profitability for the first quarter of 2012.

Net margin on the Lubelski Węgiel Bogdanka Group's operations amounted to 16.23% for the first quarter of 2013, given 20.79% for the first quarter of 2012.

A decrease in return of assets (from 3.13% to 2.00%) resulted from negative dynamics of net profit, as opposed to positive dynamics of the Group's average fixed assets.

Similarly as was the case with the return on assets, the decrease in the return on equity resulted from lower net profit (by 29.52%), with equity concurrently going up (by 3.05%).

Profitability analysis



4.2.6 Indebtedness and financing structure of the LW BOGDANKA Group

Table 14 Debt ratios of the LW BOGDANKA Group

Item	31 Mar. 2013	31 Dec. 2012	Change [%] (2013/2012)
Overall debt ratio	32.50%	34.11%	-4.72%
Debt to equity ratio	48.16%	51.77%	-6.97%
Fixed capital to fixed assets ratio	97.36%	97.26%	0.10%
Short-term debt ratio	11.75%	11.93%	-1.51%
Long-term debt ratio	20.75%	22.18%	-6.45%

As at 31 March 2013 the share of liabilities in the financing of operations of the LW BOGDANKA Group, measured with the overall debt ratio, was 32.50% compared to 34.11% as at 31 December 2012. A decrease in the value of the analysed ratio is a result of a decrease of debts of the Parent Undertaking (by PLN 5,000,000) with a concurrent increase in the balance-sheet total. In the period covered with the consolidated financial statements for the first quarter of 2013, the LW BOGDANKA Group's debts did not constitute a threat to its operations or ability to punctually pay its liabilities.

In the analysed period, the debt to equity ratio decreased from 51.77% (as at 31 December 2012) to 48.16% (as at 31 March 2013) – which is a result of an increase by PLN 69,926,000 in equity with a simultaneous increase in the Group's total liabilities by PLN 49,193,000.

The fixed capital to fixed assets ratio is at a level of 97.36% (31 March 2013) compared to 97.26% (31 December 2012) – in the analysed period the fixed capital (the sum total of shareholders equity and long-term liabilities less provisions) went up in nominal terms more than the Group's fixed assets.

Table 15 Liquidity ratios of the LW BOGDANKA Group (in days)

Item	31 Mar. 2013	31 Dec. 2012	Change [%] (2013/2012)
Current liquidity ratio	1.15	1.14	0.88%
Quick liquidity ratio	0.90	0.99	-9.09%

In the period covered by the condensed quarterly consolidated financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a safe level, and the Group is not showing any difficulties in settling its liabilities. The level of liquidity ratios (both as at 31 March 2013 and 31 December 2012) is a reflection of the balance of cash funds from loans contracted by the Parent Undertaking and from the balance of funds originated from Group's conducted operating activities.

Table 16 Turnover rates of the LW BOGDANKA Group (in days)

Item	31 Mar. 2013	31 Dec. 2012	Change [%] (2013/2012)
Stock turnover	21.3	13.6	56.62%
Trade debtors collection rate	51.4	49.3	4.26%
Trade creditors payment rate**	83.0	74.7	11.11%
Operating cycle (1+2)	72.7	62.9	15.58%
Cash conversion cycle (4-3)	-10.3	-11.8	-12.71%

* - Trade debtors and other receivables

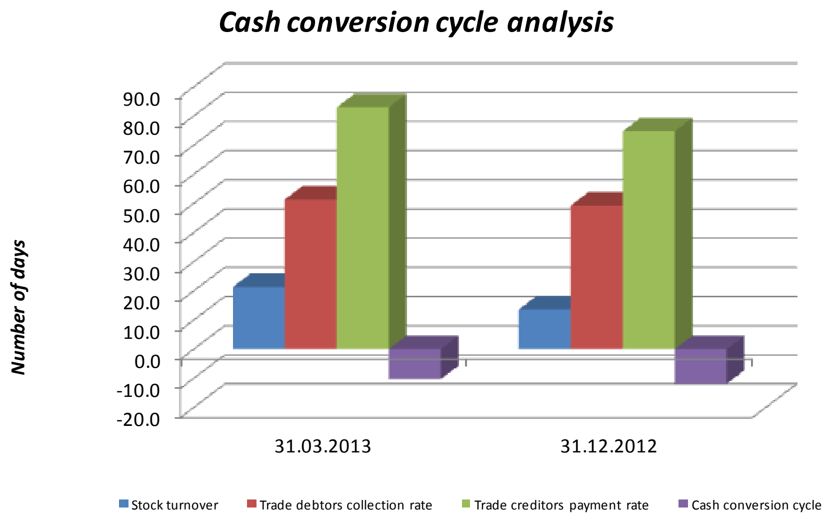
** - Trade creditors and other liabilities

Compared to the rate as at 31 December 2012, the stock turnover rate for Q1 2013 went up from 13.6 days to 21.3 days – dynamics of the average level of stock value (compared to the level as at 31 March 2012) is higher than dynamics of the cost of products, goods and materials sold.

The trade debtors collection rate (calculated on the basis of the balance sheet item "Trade and other debtors") was 51.4 days (as at 31 March 2013) and 49.3 days (as at 31 December 2012). The increase in the rate is attributable to a bigger nominal income decrease, as compared to the decrease of the average trade debtors.

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 72.7 days, as compared to 62.9 days as at 31 December 2012 – which indicates that current assets are transferred into cash on average almost 10 days slower.

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 longer from 74.7 days (as at 31 December 2012) to 83.0 days (as at 31 March 2013).



As a result of the trends described above, a cash conversion cycle of -10.3 days was achieved as at 31 March 2013 compared to -11.8 as at 31 December 2012. The negative value of the cash conversion means that the Group uses non-interest-bearing borrowed capital.

4.3 Capital investments in the LW BOGDANKA Group

The value of cash held by the Group as at 31 March 2013 was PLN 143,194,000, including:

- PLN 68,830,000 disclosed in fixed assets,

- PLN 74,364,000 disclosed in current assets,

The amount of PLN 68,830,000 covers assets accumulated by the Parent Undertaking in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in a long-term bank deposit). Other cash is held in short-term bank deposits (including *overnight* deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows.

The financial data, as disclosed in the condensed quarterly consolidated financial statements for the first quarter of 2013, is presented below. Data is presented in PLN '000 and calculated to EUR '000.

Table 17 Selected financial information from profit and loss account of the LW BOGDANKA Group

Item	PLN '000		EUR '000	
	Q1 2013	Q1 2012	Q1 2013	Q1 2012
Revenue on sales	430,758	477,302	103,205	114,323
Operating profit	87,438	119,297	20,949	28,574
Profit before taxation	87,429	123,703	20,947	29,629
Net profit for the financial year, of which:	69,926	99,210	16,754	23,763
- attributable to the shareholders of the Parent Undertaking	69,694	99,106	16,698	23,738
- attributable to minority interests	232	104	56	25
Total income for the period, of which:	69,926	99,210	16,754	23,763
- attributable to the shareholders of the Parent Undertaking	69,694	99,106	16,698	23,738
- attributable to minority interests	232	104	56	25
Number of shares	34,014	34,014	34,014	34,014
Earnings per share attributable to the Company's shareholders during the year (expressed in PLN per one share) – basic	2.05	2.91	0.49	0.70

Table18 Selected financial information from cash flow statement of the LW BOGDANKA Group

Item	PLN '000		EUR '000	
	Q1 2013	Q1 2012	Q1 2013	Q1 2012
Net operating cash flow	133,391	202,734	31,959	48,559
Net investing cash flow	-173,816	-138,662	-41,644	-33,212
Net financing cash flow	-5,762	50,000	-1,381	11,976
Net increase / (decrease) in cash and cash equivalents	-46,187	114,072	-11,066	27,323

Table 19 Selected information from the balance sheet of the LW BOGDANKA Group

Item	PLN '000		EUR '000	
	31 Mar. 2013	31 Dec. 2012	31 Mar. 2013	31 Dec. 2012
Fixed assets	3,085,581	3,063,653	738,636	749,390
Current assets	420,308	421,503	100,615	103,102
Fixed assets designated for sale	0	0	0	0
TOTAL ASSETS	3,505,889	3,485,156	839,251	852,492
Long-term liabilities	727,629	773,108	174,182	189,107
Current liabilities	411,960	415,674	98,616	101,677
Shareholders' equity attributable to the shareholders	2,356,075	2,286,381	564,005	559,263
Non-controlling interests	10,225	9,993	2,448	2,444
Total shareholders' equity	2,366,300	2,296,374	566,453	561,708

4.4 Information on the Company or its subsidiary granting sureties for a credit facility or loan or granting guarantees

In the first quarter of 2013, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

4.5 Information on financial instruments

The Parent Undertaking is a party in a forward transaction. Security is created for performance of an agreement worth EUR 347,000 for supply of raw materials to the Parent Undertaking.

In the first quarter of 2013 the Group did not use any financial instruments with regard to its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of liquidity.

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

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

4.6 Costs by type and function of the Parent Undertaking, LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and 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.

4.6.1 Costs by type

In the three months of 2013, LW BOGDANKA S.A. incurred costs with respect to type in the amount of PLN 455,466,000 compared to PLN 414,583,000 incurred in the analogous period of 2012, which means that the costs increased by 9.86% (PLN 40,883,000). The nominal increase in costs, referred to above, was largely the result of higher costs of employee benefits, costs of materials and energy consumption, as well as costs of contracted services. After the adjustment of costs by type by change in products and accruals and deferrals, the cost of own work, and having taken into account the costs of goods and materials sold, the cost of sales is obtained, which for the three months of 2013 amounted to PLN 343,338,000 as compared to PLN 332,987,000 incurred in the analogous period of 2012 (an increase by 3.11%, i.e. by PLN 10,351,000).

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

Item	for 3 months of 2013	for 3 months of 2012	Change [%] (2013/2012)	Change (PLN '000)
Depreciation and amortisation	81,970	78,763	4.07%	3,207
Materials and energy used	124,304	109,848	13.16%	14,456
Contracted services	105,476	95,145	10.86%	10,331
Employee benefits	121,089	105,148	15.16%	15,941
Entertainment and advertising expenses	2,334	2,559	-8.79%	-225
Taxes and charges	8,945	9,023	-0.86%	-78
Other expenses	11,348	14,097	-19.50%	-2,749

Item	for 3 months of 2013	for 3 months of 2012	Change [%] (2013/2012)	Change (PLN '000)
TOTAL COSTS BY TYPE	**455,466**	**414,583**	**9.86%**	**40,883**
Change in inventory of products and accruals and	-27,755	-14,998	85.06%	-12,757
Costs of operating activities	**427,711**	**399,585**	**7.04%**	**28,126**
Value of activities for the Company's own needs and IAS presentation adjustments	87,046	69,215	25.76%	17,831
Release of the provisions for real property tax			-	
Cost of goods for resale and materials sold	2,673	2,617	2.14%	56
Cost of sales	**343,338**	**332,987**	**3.11%**	**10,351**

Increase in employee benefits is a consequence of both a higher number of employees, a signed agreement on increasing the average monthly pay at the Company and an additional allowance for the Social Benefits Fund (in 2012 this additional allowance was made in Q3).

The contracted services showed the increased value of mining and drilling works and related works (more completed galleries) and the increased costs of railway transport services (in connection with more volumes of sold coal for the transport of which the seller, i.e. LWB, is responsible). It should be noted that the above transport costs are subsequently reinvoiced to the ultimate coal recipient. In addition, costs connected with removal of spoil (coal associated shale) decreased compared to the first quarter of 2012.

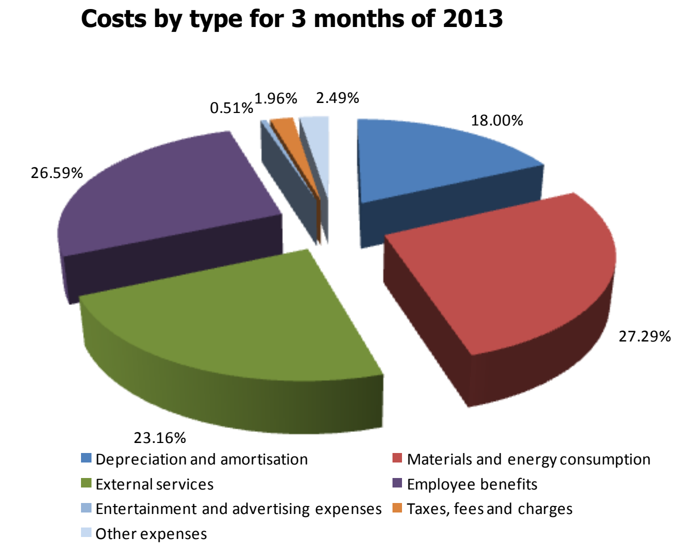
Analysing the increase in the costs of materials and energy consumption (13.16%), it must be indicated that in the first quarter of 2013 higher costs were incurred on account of exploitation and strengthening of ploughing panels (two panels were in operation, whereas only one a year ago). Furthermore, in connection with worse yield (more rock), higher costs of operation of the Mechanical Coal Processing Plant were incurred. The costs of energy remained at the same level as in 2012.

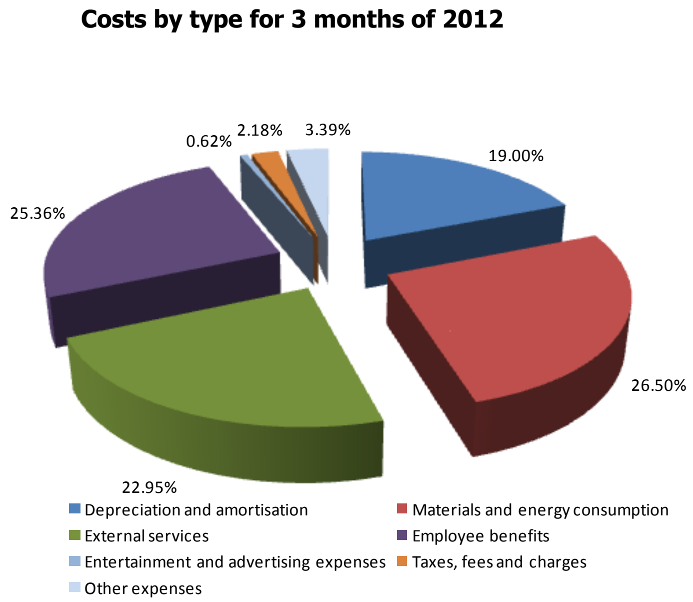
The costs of depreciation and amortisation for Q1 2013 are higher by PLN 3,207,000 than in the same period of 2012, with natural depreciation in Q1 2013 being lower than in the same period of the previous year.

The changes presented in the group of costs by type had impact on the change in the structure thereof. In the analysed period, as was the case a year earlier, the most significant item were the costs of materials and energy used, however their share increased from the level of 26.50% during three months of 2012 to 27.29% in three months of 2013, i.e. by 0.79 p.p. The share of employee benefits costs rose by 1.23 p.p. and it currently makes 26.59% of the total costs by type. The share of outsourced services costs was also slightly up, and their share at the end of March 2013 was 23.16%.

Table 21 Structure of costs by type at LW BOGDANKA S.A.

Item	for 3 months of 2013	for 3 months of 2012	Change [%] (2013/2012)
Depreciation and amortisation	18.00%	19.00%	-5.3%
Materials and energy used	27.29%	26.50%	3.0%
Contracted services	23.16%	22.95%	0.9%
Employee benefits	26.59%	25.36%	4.9%
Entertainment and advertising expenses	0.51%	0.62%	-17.7%
Taxes and charges	1.96%	2.18%	-10.1%
Other expenses	2.49%	3.39%	-26.5%
Total	**100.00%**	**100.00%**	





4.6.2 Costs by function

In the period from 1 January to 31 March 2013 Lubelski Węgiel Bogdanka S.A.'s own cost of sale amounted to PLN 343,338,000, which means an increase by PLN 10,351,000, or 3.11%, compared to the analogous period in 2012. An analysis of different components of own cost of sales shows that the increase is largely attributable to an increase in the cost of products, goods and materials sold (+2.89%, i.e. PLN +8,743,000), which is a result of a nominal increase in costs by type in the analysed period, with a concurrent drop in the amount of power coal sold recorded.

An increase in administrative expenses (+7.44%) was also recorded, which was caused mainly by higher costs of contracted services (cost of advisory services), salaries and wages as well as related costs (employee costs), as well as depreciation and amortisation, and real property tax. Selling costs increased in the analysed period by PLN 98,000, i.e. by 0.97%.

Table 22 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	for 3 months of 2013	for 3 months of 2012	Change [%] (2013/2012)	Change (PLN '000)
Costs of products, goods and materials sold	311,354	302,611	2.89%	8,743
Selling costs	10,182	10,084	0.97%	98
Administrative costs	21,802	20,292	7.44%	1,510
Cost of sales	**343,338**	**332,987**	**3.11%**	**10,351**

The recorded changes in products, goods and materials sold, as well as in selling and administrative costs resulted in a drop in the percentage of products, goods and materials sold in the structure of cost of products sold. The percentage of administrative costs increased from 6.09% for the first quarter of 2012 to 6.35% for the first quarter of 2013.

Table 23 Costs of LW BOGDANKA S.A. by function - structure

Item	for 3 months of 2013	for 3 months of 2012	Change [%] (2013/2012)
Costs of products, goods and materials sold	90.68%	90.88%	-0.22%
Selling costs	2.97%	3.03%	-1.98%
Administrative costs	6.35%	6.09%	4.27%
Cost of sales	**100.00%**	**100.00%**	**x**

4.7 Assessment of the possibilities of investment plans' execution

The Company plans that the structure of financing its property investment expenses will not be subject to major alterations, i.e. they will mainly be financed using its own funds and debt. The Management Board does not rule out further increasing the share of debt financing in 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, however according to its estimates the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

As at 31 March 2013 the Parent Undertaking's current loan in the amount of PLN 436 million accounted for approx. 18.43% of the shareholders' equity and approx. 12.44% of the balance-sheet total.

LW BOGDANKA S.A. does not plan for 2013 any capital expenditure in unrelated undertakings.

5. INFORMATION ON KEY MATERIAL AND EQUITY INVESTMENTS OF THE LW BOGDANKA GROUP

5.1 Material investments of the LW BOGDANKA Group in the first quarter of 2013

In the first three months of 2013 the LW BOGDANKA Group executed the scope of investment works necessary to double coal extraction in 2014.

A list of key investment expenses incurred in the first three months of 2013 is presented in the table below.

Table 24 Key investment expenses incurred in the 3 months of 2013 and 3 months of 2012 [PLN '000]

Item	1 Jan. 2013 – 31 Mar. 2013	1 Jan. 2012 – 31 Mar. 2012
Investment expenses on acquisition of tangible fixed assets	168,571	133,125
Interest paid regarding investing activity	4,389	4,850
Investment expenses on acquisition of intangible fixed assets	565	183

Investment outlays (payments according to dates under the agreement) include liabilities due to investments executed in the previous year and part of outlays incurred in the three months of 2013.

In the three months of 2013, the outlays on tangible fixed assets under construction incurred on account of investment amounted to PLN 106,038,000. These outlays concern the following investment groups:

Table 25 Key material investments of the LW BOGDANKA Group in the 3 months of 2013 and the 3 months of 2012 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2013 to 31 Mar. 2013	Outlays incurred from 1 Jan. 2012 to 31 Mar. 2012
Construction and assembly works	68,613	71,329
Order picking and purchases of finished goods	36,896	50,337
Other	529	183
Total	**106,038**	**121,849**

5.2 Material investments of the Company in the first quarter of 2013

Table 26 Implementation of investment projects in 2012 and the plan for 2013, as divided into projects [PLN '000]

Investment projects		Q1 2012 implementation	Q1 2013 implementation	2012 implementation	2013 - plan
Gr. 1	**Development capex (development of the Stefanów Field)**	47,537	5,840	168,986	78,322
A	Technical infrastructure (shaft 2.1, development of MCPP, other)	31,954	5,840	91,901	78,322
B	Developing coal seams availability in the Stefanów Field	15,583	0	77,085	0
Gr. 2	**Other development expenditures**	0	120	4,805	34,851
Gr. 3	**Replacement capex**	8,037	5,761	44,216	47,569
A	Modernisations and repair of equipment and devices	3,371	2,330	19,252	7,050
B	Building and modernisation of infrastructure and installations	4,667	3,431	24,964	40,519
Gr. 4	**Environmental protection**	631	1,380	10,885	12,353
Gr. 5	**Building and modernisation of galleries in the Bogdanka, Nadrybie and Stefanów Fields**	38,409	60,801	140,867	308,790
Gr. 6	**Purchase of equipment and devices**	26,701	31,060	269,005	225,267
	TOTAL:	**121,315**	**104,961**	**638,764**	**707,152**

5.2.1 Investments in the first quarter of 2013

In the first quarter of 2013, the following works were performed:

Gr. 1 Development investments

A. Technical infrastructure

The central air conditioning of the Stefanów Field – the 1 MW expansion of the underground air conditioning system is ongoing.

Extension of the Mechanical Coal Processing Plant

Task 2 - Extension of the MCPP processing capacity from its current level of 1,200 up to 2,400 t/h:

the advancement of works is at about 74% of the task value.

a/ Stage I part A – all the construction facilities included in that stage were put into operation, the trial run of machines and devices was completed,

b/ Stage I part B – all the construction facilities of that stage were put into operation. The assembly of machines, devices and installations was completed, the acceptance process was started.

c/ Stage II:

- Facility 47.1 Complex facility – the assembly of technological installations, machines and devices is under way.

- Facilities 103.1 and 106.1 The heavy liquid washer and the jig washer – the assembly of the steel structure was completed, the assembly of the reinforced concrete structures of the roof was started.

f/ Roads and lots – continued works.

Gr. 2 Other development investments

Central air-conditioning system of the Bogdanka Field – under way

Gr. 3 Reconstruction investments

A. Modernization and repairs of machines and devices – the repair of the Am-75 heading coal-cutting machine and the periodical repair of 17 bogies were performed

B. Construction and modernization of structures and installations – in the first quarter the works were being performed at the development of the car park in Bogdanka. The modernization and thermal insulation of the facilities in the MW storage in Albertów was ongoing. The expansion and repair of the oil and lubricant warehouse in Bogdanka, and of the bathrooms in the canteen, was completed.

Design works were performed at the redevelopment of the Łęczna-Bogdanka 110 kV overhead power line in the area of the 110/6 kV GSTR station, and at the redevelopment and modernization of GSTR 110/6 kV in Bogdanka. The devices for measuring the parameters of the raw coal quality from Stefanów were installed.

Gr. 4 Environmental protection

Extension of the mining landfill – there are ongoing works for the first stage of the development of an existing mining landfill, and new lands are being purchased for further development.

Gr. 5 Building and modernization of workings in the Bogdanka, Nadrybie and Stefanów Fields

In the first quarter 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 in seam 385/2 were continued. The workings were drilled for making available further coal ploughing panels in the Stefanów Field.

The workings were being drilled for the first panel in seam 391. The division of seams 82 and 385/2 for starting new mining longwalls, was continued. The total length of heading workings amounted to 6,527.7 m. Redevelopment of workings – executed in accordance with the projected time schedules.

Gr. 6 Purchases of machines and devices

Purchase and assembly of panel complexes – the company concluded an agreement on the delivery of a coal ploughing system No. 3 and on the supplementation of system No. 2 (expansion from 250 m to 305 m).

Purchase and assembly of new machines and devices – new items, track locomotives – 3 items, belt conveyors – 3 items, roadheading machines – 3 items, SWKB-type self-propelled roof bolters – 2 items as well as ventilation stoppings and cooling devices.

Purchases of fixed assets – The fixed assets of the value of PLN 7,332,400 were purchased. The significant purchases included: mobile transformer stations – 15 items, compact stations for feeding the devices in the heading coal-ploughing forehead – 2 items, fan for ventilating long workings, transportation platforms and a forklift truck.

5.3 Equity investments of the Company, including equity investments made outside of the Group, and a description of financing methods

On 10 April 2013, the Parent Undertaking established a company under the business name: EkoTRANS Bogdanka Sp. z o. o. with registered office in Bogdanka, pursuant to notarial deed Rep. A No. 1302/2013. All shares in the company were taken up by the Parent Undertaking. On 24 April 2013, the Parent Undertaking paid the amount of PLN 100,000 to cover the above shares. The main business activity of EkoTRANS Bogdanka Sp. z o. o. is comprehensive organisation of the process of transport and recovery of waste arising during coal associated shale washing.

In the first quarter of 2013, the LW BOGDANKA Group did not make any other equity investments.

Provided that statutory bodies give their approvals, and Łęczyńska Energetyka adopts its own development strategy which consists in the construction of a heat and power station, the Company does not rule out the possibility that in 2013 it will participate in the subsidiary's project. Final decision will depend on the choice of a method for implementing the investment.

6. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA S.A. REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR IN QUESTION, IN LIGHT OF THE RESULTS PRESENTED IN THE QUARTERLY REPORT AS COMPARED TO THE FORECAST RESULTS

LW BOGDANKA S.A. did not publish financial results forecasts for 2013.

7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

A strategic development objective of LW BOGDANKA S.A. is to build and increase 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 a description of planned activities:

1) doubling the level of extraction of hard coal;

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

The major component of the LW BOGDANKA 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 11.5 million tonnes per annum in 2014.

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

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

b) Increase in employment and human resource management

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 possibility of participating in the project of conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station has been considered.

4) Environmental protection measures.

8. DESCRIPTION OF RISKS WHICH, IN THE ASSESSMENT OF LW BOGDANKA S.A., WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY AND ITS GROUP WITHIN AT LEAST THE FOLLOWING QUARTER

8.1 Risks associated with the Group's social and economic environment and market environment

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

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

In the event of a significant deterioration of the economic situation of the customers for the power coal, or in connection with a deterioration of economic situation in Poland, which will result in a decrease in demand for electricity and heat energy, the Group's financial results may decline. However, taking into account the long-term commercial agreements, which oblige the customers to purchase specified volumes of power coal, the risk of a significant decline in the Group’s results is reduced. This thesis finds its confirmation in the fact that regardless of the macroeconomic situation in Poland and in the world, since 1994 the LW BOGDANKA Group has regularly achieved positive financial results. The Group’s financial results may also decline if current taxes are raised (such as mining royalty), new taxes are imposed, or new fees for hard coal extraction are introduced.

8.1.2 Risk associated with the economic policy of the state in relation to the hard coal mining sector

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA Group's market position. Those plans are set forth in particular in the following 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;
- "Privatisation Plan for 2012-2013", adopted by the Council of Ministers in March 2012.

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

8.1.3 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, including in particular the prices of power coal, and raw materials alternative to power coal (crude oil, natural gas, renewable sources) on global markets, and, in consequence, on the domestic market, are of great significance for the activities conducted by the Group. The current difficult situation on global financial markets, crisis and recession in the Euro zone, crisis in the Middle East (Iran, Syria), impairment of economic growth in China, impairment of economic growth in Poland and increase in stocks of unsold coal with the world and national producers in connection with a decreased demand for coal may bring changes in the demand for fuel, and consequently, changes in global and national market prices of coal and energy, which may affect the Group's financial result. LW Bogdanka S.A. mitigates the risk associated with changes in the prices of raw materials for power production by undertaking measures aimed at reducing prime costs of coal extraction, which at the same time increases its competitiveness, and by concluding long-term commercial agreements with major customers for power coal.

8.1.4 Risk associated with excise tax in relation to coal

As of 2 January 2012 the provisions of the Excise Tax Act of 6 December 2008 entered into force and covered the sales of coal products intended for heating purposes with the effective taxation with an excise tax. Although the provisions of the above law as well executive regulations thereto 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, they result in a greater number of burdensome formal requirements regarding documentation of sale of excise tax exempt coal products.

Currently legislation works are underway in the parliamentary committees aimed at amending the provisions of the Excise Tax Act of 6 December 2008 as regards the taxation of coal products. Amendments to the tax provisions in this regard will enter into force probably already in 2013 after the legislation process has been completed and their objective is to clear and order the system of excise tax exemptions for coal products implemented on 2 January 2012.

The excise tax risk is connected with frequent changes in the tax law, ambiguous interpretation of the tax law and the possibility of formal errors being made that may lead to the excise tax exempt status of certain sale transactions being revoked. Revocation of the excise tax exemption by virtue of decisions issued by competent customs or tax authorities may result in excise tax being charged on certain sale transactions, which may have a negative impact on the Group's financial results.

The Group manages the excise tax risk by: providing excise tax training to its personnel, co-operating with reputable tax advisors, requesting tax authorities to issue individual binding rulings, active participation in the legislation process in progress, introducing in trade contracts clauses that enable the transfer of potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

Moreover, it is important to emphasise that due to its relatively low costs of hard coal extraction, the Group can respond to the changing market circumstances more flexibly with regard to potential changes in tax law.

8.1.5 Interest rate risk

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

8.1.6 Risk connected with exchange rates

On 7 February 2013, the Management Board of Lubelski Węgiel Bogdanka SA signed with Caterpillar Global Mining Europe GmbH a contract for the purchase of the next ploughing system for low seam mining. The contract value is EUR 47 million. As the contract is denominated in a foreign currency, there is a foreign exchange risk connected with measurement of the contract itself and origination of foreign exchange gains/losses at the time of payment for particular project stages. Appreciation of the Polish currency will result in lower measurement of the contract, which will be beneficial for the Company (the cost of purchase will be lower); in the opposite situation the contract value will increase, which in consequence will lead to a necessity to spend more cash. The foreign exchange risk will not have a direct impact on the Company's results until the system is made available for use, it will affect only the level of cash available in the Company. Currently the Company carries out analyses aimed at optimum management of the currency risk. The Parent Undertaking is a party to a currency forward transaction. The hedge is established for the execution of a contract of EUR 347,000 for the supply of materials to the Parent Undertaking.

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

Currently, the LW BOGDANKA Group implements a large investment programme associated with increasing the extraction capacity by enlarging the Stefanów Field. The planned investments are to be financed both with own funds and debt financing (currently totalling PLN 436 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 Group's current interest-bearing loan in the amount of PLN 436 million (as at 31 March 2013) accounts for approx. 18.43% of the shareholders' equity, and approx. 12.44% of the balance-sheet total.

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

The operating activities of the LW BOGDANKA Group are exposed to risks and dangers beyond its control and 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 may cause a temporary suspension of the Group's (LW BOGDANKA) operating activities, or losses relating to property, financial assets and employees, or may result in the Group being held legally liable. The most important natural threats occurring in the mine include:

- coal dust explosion threat - class "b";
- fire threat - IV self-combustion group (on a five-grade scale);
- methane hazard - methane category I (on a four-grade scale),
- water threat - category I and II (on a three-grade scale),
- threat regarding the changing geological and mining conditions with respect to excavation works.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, including the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group in the future. The Company is under obligation to create a mining damage fund to finance costs related to this area of the Company's activity. The scope of mining damage in the case of LW Bogdanka is relatively small, since exploitation is conducted under slightly urbanised area.

The safety level of the operating conditions in the LW BOGDANKA 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 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 deposits 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 extracts hard coal;
- high qualifications of the personnel.

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

The European Commission declares reduction of the CO2 emissions by 2020 in line with the Europe 2020 strategy and the "3 x 20" rule – assuming a 20% reduction of greenhouse gas emissions, 20% of renewable energy, and 20% of energy efficiency, and, additionally, it proposes introducing a system of auctions for emission permits starting 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 as regards competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW BOGDANKA Group, and in consequence, may have a negative impact on its financial results. It is hard to evaluate this risk and it is hard to undertake any activities aimed at limiting it, given the fact that regardless of the proposed strict EU climate policy, works are still in progress in relation to the final form of obligations to reduce the emission of CO_2 in the respective sectors of economy, and no binding decisions have been made, thus it's not known at what actual level the limits of CO_2 emission will be. New technologies known as "clean coal technologies" have already appeared in such countries as USA, China and Australia. They are being gradually improved, but, when applied, they will significantly reduce the problem of CO_2 emission.

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

There is a limited risk that the Polish power industry may be able to switch to a raw material other than hard coal within the next 10 years. The LW BOGDANKA Group has long-term contracts which secure it against the risk of a change over the successive years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. LW BOGDANKA is taking measures in order to further secure its supplies of coal for commercial power production in the long-term perspective, relating to existing and prospective power units within the area of its operations.

The Company has signed contracts for the entire sales of coal for 2013, and a long-term agreement with Enea Elektrownia Kozienice S.A. which ensures sale of the Company's coal in the long-term perspective until 2025. In 2012, the Company concluded new long-term agreements with GDF Suez Energia Polska S.A., PGNiG Termika S.A., Grupa Ożarów S.A., and has stable agreements with Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o., which ensure supplies of Power coal in the upcoming five years.

Furthermore, the Company has concluded long-term conditional agreements with Enea Elektrownia Kozienice S.A., Energia Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future supplies of power coal to new power units which, once the conditions precedent are met, will guarantee sales of the Company's coal at least until 2036. In connection with its conditional character noted above, on 30 November 2012 the agreement with Energa Elektrownie Ostrołęka regarding future supplies for a newly built unit C was terminated by Elektrownia Ostrołęka S.A. because of a change in investment priorities of the Energa Group, and currently its notice period is in progress. The terminated agreement does not apply to current supplies to Energa Elektrownie Ostrołęka S.A., which are performed steadily in compliance with the terms and conditions of a separate agreement.

The conditional nature of the agreements for the future supplies of commercial coal for the new constructed power units, 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.

The Company mitigates the risk of the decrease in demand from commercial power production 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 activities diversifying the future structure of sales. To this end the Company also undertakes activities together with other entities aimed at expanding the application of the Company's hard coal, for instance in other power projects, or establishing a coal gasification installation in the future.

8.1.11 Risk of hostile takeover of the Group

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange, has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. As a 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 (starting 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 concurrent 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 aimed at increasing 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.

8.2 Risk directly associated with the Group's operations

8.2.1 Risk associated with the launch of extraction of new deposits by LW BOGDANKA

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources. If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of LW BOGDANKA might 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.

The Company has taken steps aimed at acquiring resources prospective for future development of the mining activity. Geological documentation and deposit development plan have been prepared and actions have been taken to obtain a licence for extracting coal in a new area to the south and east of the current Puchaczów V mining area.

Recently we may notice large interest of various business entities, both domestic and foreign, in the deposit located in the Lublin Coal Basin. Some of them have obtained a licence for exploratory works. Mass media reported information as well as statements and publications by management board members of the major power coal producer in Silesia about plans to build a hard coal mine in the Lublin Coal Basin. At the current stage, geological drillings will be made aimed at examining and documenting the Wojciechów coal deposit in the Chełm region. The launch of mining activity within less than 10 years is not realistic. A new mine could be a new competitor on the sale market of the Bogdanka mine.

8.2.2 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 making timely deliveries to the customers of the Group (LW BOGDANKA), and therefore on the financial results achieved by the Group in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA uses the longwall system and currently extracts coal from usually three mining faces which operate simultaneously + 2 being allocated (modified). At the target production capacity, however, coal is obtained from four mining faces operating simultaneously + 2 being allocated. At the target production capacity, however, coal will be obtained from four mining faces operating simultaneously. If a periodic stoppage occurs at one of the faces, the technical and technological mining conditions make it possible to maintain the planned level of extraction by intensifying work at the other face. 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, which has recently been expanded by three new reservoirs in Stefanów. Reservoirs of raw coal are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations and conducts intensive research and development works aimed at increasing the productivity of its operations by means of introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the Group's technical and technological risk.

This risk group includes also a risk of unexpected, mostly local based, deterioration of deposit quality, e.g. by decreased seam thickness, waste rock interlayers or seam folding, which will result in the worse quality of coal (more rock mined with coal). In such case, despite full gross extraction and its increased costs (problems with mining rock, more tools and vehicles used, increased costs of rock processing and storage etc.), the quantities of obtained commercial coal will be lower, which will affect economic performance.

8.2.3 Risk associated with high costs of technologies applied by the Company

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

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation) and is based on specialist equipment manufactured by only company in the world. In 2012, LW Bogdanka purchased the second longwall ploughing system and in 2013 it concluded an agreement for the 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.

Also a risk of an increase in the costs of mining activity in connection with depth of extraction will be higher. 2014 will see the end of excavation of coal from seam 382. Instead, excavation of coal from seam 391 will be started. Seam 391 is located about 100 m beneath seam 382. Along with depth, there are more problems with maintenance of excavation workings (increased pressure of rock mass), original rock temperature and certain hazards increase, which may jointly result in higher costs of coal excavation.

8.2.4 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of LW Bogdanka's computer systems may adversely affect the ongoing operations of the LW BOGDANKA Group, and therefore affect the future financial results of the Group. However, the Group stresses that LW BOGDANKA is systematically taking action 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 protection of the IT environment. This is to include organisation of data access, making security data back-ups and data storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VAN secure connections, anti-virus systems for the purpose of protection servers and user workstations.

The procedures for maintaining the continuity of all key systems' operation have been designed and implemented. Risk analysis system, including IT system risks, has been implemented and updated.

The servers supporting the systems are a high-class equipment. The main Oracle databases and virtual server environment are made in high reliability cluster technology. Clusters are situated in two locations. The main and back-up server room of LW Bogdanka S.A. is under constant monitoring of environmental variables. Each server room is equipped with UPS devices and air conditioning. In addition, the main server room has been equipped with a redundant UPS device, dedicated fire-fighting system and dedicated high performance air conditioning.

In 2011, an integrated network security support system was implemented. In order to further enhance it and to improve the management of user accounts and workstations, the implementation of a domain name system is under way, which enables further standardisation and IT integration.

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

8.2.5 Key customer risk

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

The Company has signed contracts for the entire sales of coal for 2013, and a long-term agreement with Enea Elektrownia Kozienice S.A. which ensures sale of the Company's coal in the long-term perspective until 2025. In 2012 the Company signed new long-term agreements with GDF Suez Energia Polska S.A., PGNiG Termika S.A., Grupa Ożarów S.A. as well as has stable agreements with Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o. ensuring supplies of power coal for the upcoming five years.

Furthermore, the Company has concluded long-term conditional agreements with Enea Elektrownia Kozienice S.A., Energia Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future supplies of power coal to new power units which, once the conditions precedent are met, will guarantee sales of the Company's coal at least until 2036. In connection with its conditional character noted above, on 30 November 2012 the agreement with Energa Elektrownie Ostrołęka regarding future supplies for a newly built unit C was terminated by Elektrownia Ostrołęka S.A. because of a change in investment priorities of the Energa Group, and currently its notice period is in progress. The terminated agreement does not apply to current supplies to Energa Elektrownie Ostrołęka S.A., which are performed steadily in compliance with the terms and conditions of a separate agreement.

The conditional nature of the agreements for the future supplies of commercial coal for the new constructed power units, 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.

There is also a risk that power investments in new capacities will not be implemented, or that power investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed - which may cause a problem for the Group regarding allocation of significant volumes of coal originating from increased extraction.

The Company manages the key customer risk by: analysis of situation and forecasts on the coal sale market, co-operation with reputable institutions involved in the analysis of energy raw materials market, and taking actions to diversify the future sales structure.

Information on the material trade agreements signed by the Group in 2012 and after the balance-sheet date is presented in section 3.1 of the Report.

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 has been assumed in the investment, mining and coal sales plans. This may bring about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by the LW BOGDANKA Group. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

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

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

consolidation processes in mining, energy or industry 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.

There is a risk that as a result of privatisation, consolidation or restructuring processes in the capital market, one of the key recipients of the Company coal will significantly strengthen its position in relation to the Company, among others, by the recipient's capital group taking over higher volumes of the Company sales than they are now, or there may be a risk of changing the Company coal into substitute or competitive fuels preferred to be used in the recipient's capital group.

It may cause a risk of group purchases, i.e. increased dependency of the Company on sales effected to one recipient or increased influence of the recipient's capital group on the Company with respect to arrangement of commercial terms of co-operation.

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 to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. However, 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 of 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 is, in the Group's assessment, very limited.

8.2.7 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Group's receivables in comparison to liabilities. As of the end of the first quarter of 2013, trade debtors and other short-term receivables of the Company accounted for 7.14% of the balance-sheet total and 57.91% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total short-term receivables accounted for 74.96%.

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

8.2.8 Risk of delays in the planned investments

Risk of delays in the planned investments due to the obligation to comply with the Public Procurement Law. The LW BOGDANKA Group is carrying out activities aimed at increasing production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of these 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. The Company 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 agreement, should have been completed by the end of 2013. In 2014, the plant's delivery procedures and trial operation will commence. In accordance with an annex to an agreement, the entire investment should have been completed by 31 August 2014, so that full extraction of approx. 11 million tonnes could commence in 2014. This will facilitate full coal beneficiation as of 2014 when the extension of the mine is completed. 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.

8.2.9 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, six trade union organisations operate at the Group, associating approx. 64% of the Group's employees (at LW there are four trade union organisations associating 63% of staff). 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 generated mainly by LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by LW BOGDANKA.

Although a perspective that trade unions will use the so called strongest weapon such as strike seems quite distant, signals coming from the economy, both domestic and global, are not optimistic. In the area of energy raw materials (including hard coal) 2013 is forecasted as a very difficult year, which forces enterprises from that sector (including LW Bogdanka) to take saving measures. Combined with more and more payroll expectations it may cause difficulties in complying with negotiated agreements. Which in turn increases a risk of potential social disturbances.

It concerns also possible protests connected with a risk of the hostile takeover of LW BOGDANKA and thus the whole Group.

In the Group's opinion, cooperation between the Management Boards of the Parent Undertaking and the subsidiary and the trade unions operating within the Group has so far been successful.
In the current year, reasonability and pragmatism of trade unions will be of special significance, especially as regards expectations and demands connected with payroll.
The Group's objectives include continuation of the cooperation between its companies' Management Boards and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the companies' and the whole Group's objectives and strategy.

8.2.10 Risk associated with retaining and attracting human resources at 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. 2012 was the last year in which the Company, apart from filling positions left vacant through natural wastage, planned to increase employment which was estimated at approx. 250 workers. Due to various reasons, it was not implemented in 2012, and thus moved to the second half of 2013. The change resulted from the adoption of the Technical and Economic Plan, where such assumptions were included. 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 aims to limit the human resources related risks. Since 2007, the Company had gradually been hiring young employees, and by the end of 2011 (completion of the Stefanów Field extension) they gained the necessary mining experience and the qualifications required. 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 fully meet the Company's needs. Therefore, there is no reason for concern of risks in this area. Changes concerning the organisation of non-stationary vocational schooling (a system of courses), will not exert any influence on education, and thus, on the recruitment of new personnel.

On-going and protracted discussions and works by the Government and Parliament on the pension system represent a factor which is beyond control of the Company but increases a risk of employment destabilisation. Although nothing bad has been yet decided about miners' pensions, announcements to come back to the issue and pressure of various social and political groups are conducive for the climate of uncertainty. At stake is the lengthening of productive age and restriction or even cancelation of existing pension privileges with respect to certain groups in the mining sector. Concern (maybe unfounded) of losing the acquired rights may, if the situation develops unfavourably, cause numerous retirements within a short period of time by persons that have already acquired the so called sector rights but declare that they want to continue working and retire a bit later. These are especially valuable employees because of their knowledge and experience. Their value is high both for the quality of provided work and the process of educating new staff. Their sudden retirement within a short time may cause disturbance in generation continuity redeveloped within the Company, and thus in smooth staff fluctuation.

8.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with the Group (LW BOGDANKA)

Such cooperation involves external entities providing outsourcing services to LW BOGDANKA, which consist in providing the Company with 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 abovementioned entities 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 external entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by the LW BOGDANKA Group.

8.2.12 Key supplier risk

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

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

8.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

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

8.2.14 Risk associated with related party transactions

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

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

8.2.15 Financial risk factors

8.2.16 Liquidity risk

A major factor in evaluating insolvency risk is the level of operating cash flows, cash and liquidity ratios. In the Group, cash and cash equivalents as at 31 March 2013 amounted to PLN 120,551,000, the current liquidity ratio amounted to 1.15 and the quick ratio to 0.90. In the first quarter of 2013, operating net cash flow generated by the Group was lower by 34.2% compared to the analogous period of the previous year. As of the date of submitting this Report, the Group is not threatened with insolvency. In order to avoid potential threats to the Group's solvency in the future and to minimise liquidity risk, the Group prepares long- and short-term analyses and forecasts as the basis for identifying the Group's cash requirements. This makes it possible to plan inflows and outflows and to determine the optimum level of cash and the optimum method of financing for the future, taking into account the principles of economic calculation.

8.2.17 Insurance risk

The LW BOGDANKA Group insures its business. As is the case with other mining enterprises in the world, the threats most significant in terms of risk assessment are those related to the possibility of damage to the property used for mining operations. In this respect, the Company holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish enterprises conducting similar activities. The remaining Group operations are covered by other insurance policies, such as third party liability insurance against damage caused in connection with business activity or property in the Group'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 Group on insurance companies. Therefore, it cannot be guaranteed that insurance policies taken out by the Group will prove sufficient for covering each and every loss or liability, which may exert an influence on the Group's financial standing, results of its operations and the generated cash flow.

8.3 Risks associated with environmental protection

8.3.1 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 stricter. 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 (potential 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.

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

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the Group’s companies have to hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including Best Available Technology requirements, “BAT”), regarding in particular emissions of substances to the air, noise, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are applicable to LW Bogdanka and Łęczyńska Energetyka. As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including in particular, integrated permit for the installations covered with IPPS requirements (Production Section of construction ceramics EkoKlinkier), as well as a permit to operate a mining waste utilisation facility. Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO_2 emission allowances for the settlement period 2008-2012, which formed a basis for preparing and reviewing emission reports concerning the emission of CO_2 from installations owned by the Group. 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 the future further legislative changes will introduce even stricter standards of the use of the environment, which may also apply to LW BOGDANKA and Łęczyńska Energetyka. The changes may lead to the necessity of adjusting the companies’ operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air, or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays, and hence adversely affect the Group's financial results. In order to mitigate a risk connected with shortage of free CO_2 emission allowances for the EkoKLINKIER installations in the subsequent years of 2013 – 2020, the Company retained the allowances saved in the preceding settlement period and in addition took steps to purchase approx. 5000 EUA. With a current favourable tendency on the CO_2 emission allowances trading market, the trade will be nearly cashless without any adverse impact on the Company’s finances. In total, the quantities of EAU gathered and acquired under free allocation will secure the needs of the installations in this respect in the settlement period 2013-2020.

In order to reduce the risk related to the provisions of the amended Mining Waste Act, in 2012 LW BOGDANKA obtained a permit to operate a mining waste utilisation facility. Therefore, the Company’s operations in this respect were as at 1 May 2012 adjusted to the new legal requirements.

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

8.3.3 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 increased significantly (in 2012 at a level of 4.74 million tonnes per year; the forecast for the period after 2012 in connection with further increase in extraction, the quantity of waste will be in the range of 5.2-5.7 million tonnes in 2014). As at 31 December 2012, approx. 54% of extraction waste was recycled, whereas the remaining part was kept or stored at the waste heap on the mine premises (the waste is recycled by the mines 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 facility is sufficient for the next 3-5 years of storing, pursuant to a building permit the Company commenced works connected with raising the existing heap to 250 metres above the sea level and took steps to acquire the adjacent areas for further expansion of 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 for relevant amendments to the local spatial development plan have been submitted and the works in this respect are advanced. Following the social consultations, the local community's approval for the investment has been obtained. Moreover, the Company has already carried out talks with the plot owners and obtained preliminary consent for the purchase of plots. 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 other entities for management, other waste yard location) may turn to be less cost effective which may affect the financial result.

With a view to reducing the risk connected with the acquisition of waste utilisation sites, the Company commenced works connected with raising the existing mining waste utilisation facility. Such course of action will make it possible, without undue haste, to continue the works on acquiring new land for further stages of the extension of the waste heap and to complete the formal and legal matters related to that project.

8.3.4 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 mining land and three others in close vicinity of the mining land). Those environmental and nature-related conditions do not pose an obstacle for 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 connection with its investment activity, certain obligations may be imposed on the Company or the requirements concerning the limitation of the negative environmental impact will be stricter (e.g. the 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). Those investment restrictions may require higher investment costs and therefore may affect financial result.

8.4 Risk factors associated with proceedings and legal environment

8.4.1 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. The changing laws may involve all kinds of risks. Any tax rulings issued following its stock exchange debut may tarnish the Company's image and goodwill. Tax settlements may be the subject of control of tax authorities which, if irregularities are found, have the right to calculate the tax arrears with interest. Tax returns submitted by the Group companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with 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 operations and financial performance of particular companies.

8.4.2 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 property tax returns for tax assessment purposes.

Fiscal procedures covering the period between 2004 and 2007 are currently pending in order to determine the amount of the Company's property tax liabilities. The procedures have been initiated by the Heads of the Communes of Puchaczów, Cyców and Ludwin. Last year, the Head of the Puchaczów Commune has additionally instigated proceedings to determine the amount of property tax for 2011. In their decisions issued for the period from 2003 to 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 P 33/09. In its judgment, the Constitutional Tribunal found that under the applicable provisions of law currently in force, imposing 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 does not discount the possibility of charging property tax on structures and equipment facilities located in underground workings, but the Tribunal has warned that property tax on such structures or facilities may only be imposed if certain conditions are met, i.e. that in accordance with the Building Law the structures may 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 be based, in addition to the Building Law, also on other statutory provisions supplementing the building law, modifying it or making it precise.

In addition, the Constitutional Tribunal has 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 has explained that even if underground workings are classified, by way of analogy, as building facilities (more specifically, structures) within the meaning of the 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" is not expressly listed in the Building Law as the name of a structure, underground workings are not structures within the meaning of the Local Taxes and Charges Act.

Moreover, the Constitutional Tribunal has argued, in its judgment, that if the classification of the different facilities and equipment located in underground workings to the different names of structures specified in the Building Law is not successful, it will be necessary to determine whether or not the facilities and equipment in question can be classified as building equipment within the meaning of the Building Law and which is, 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 as space (an underground working in the physical sense) is not a building facility within the meaning of the Building Law, and if an underground working considered as 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 prerequisite 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 as building equipment connected with surface buildings remains open.

The above opinion expressed by the Constitutional Tribunal means that 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 taken steps 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 property tax. Following an initial analysis of types of the infrastructure located in underground mining excavations and having estimated their initial value, the Company estimated an amount of the provision as at 31 March 2013.

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

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

a. preparatory pits for liquidation - when the excavation from the exploitation field the preparatory pits are associated with ends, those pits are liquidated as useless for the remaining parts of the mine. Some of those pits which perform the function of near-wall pits are liquidated gradually along the progress of the exploited wall. 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 (walls and cross-cuts). Those pits are liquidated when the extraction in the field of the wall is completed and when they are no longer necessary for operation of the remaining parts of the mine;
d. pits and examination holes - corridor pits and openings performed from the surface and mining pits for the purposes of examination of the deposit. The purpose of those pits is to examine the deposit structure and collect information on its exploitation.

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

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

8.4.5 Risk of violating the stock exchange disclosure requirements

Given the fact that shares of LW BOGDANKA S.A. are listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements, including those connected with securing equal access to certain information on the Group's operations 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 (Dz. U. 09.185.1439, unified text). For a failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the companies' operations from the perspective of disclosure requirements.

8.5 Relationships of risks within the Group - summary

The LW Bogdanka Group consists of a Parent Undertaking – LW Bogdanka S.A. and a subsidiary company – Łęczyńska Energetyka Sp. z o.o. The Parent Undertaking generates 99.3% share of Group's revenue and 98.80% of net profit (according to data for 2010). Therefore, it was assumed that the key risks in Group's activities are in fact the key risks of the Parent Undertaking. The only risk at the Group's level which could influence the Group's activities to a considerable extent, and is associated with Łęczyńska Energetyka, is the process of implementing the planned investment, i.e. "Modernization and expansion of the heating plant in Bogdanka into a combined heat and power generating plant". This investment involves a number of technical, technological, processing, and financial risks that are typical for this kind of projects.

9. PROCEEDINGS PENDING BEFORE A COURT, THE RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION AUTHORITY

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first quarter of 2013, neither LW BOGDANKA S.A. nor its subsidiary were parties to proceedings pending before court, arbitration body or administrative body, regarding:

- 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.

10. RELATED PARTY TRANSACTIONS

In the first quarter of 2013 the Company and its subsidiary did not conclude any significant transactions with related entities which would be individually or jointly significant and would be concluded on terms other than arm's length terms.

Information on the transactions of the LW BOGDANKA Group with related companies is set out in Section 10 of the Condensed Quarterly Consolidated Financial Statements of the LW BOGDANKA Group for three months of 2013.

11. OTHER INFORMATION WHICH, IN THE OPINION OF THE MANAGEMENT BOARD, IS SIGNIFICANT FOR ASSESSING THE EMPLOYEES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THEREIN AND INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF THE LW BOGDANKA GROUP SETTLING ITS LIABILITIES

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 eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints submitted 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 concluded 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 free-of-charge acquisition of shares commenced on 7 April 2010. The process lasted from 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, in current report No. 33/2011, the Company announced information regarding final number of series B shares which, pursuant to a resolution of the Company's Management Board of 15 December 2011, were converted from registered shares into bearer shares upon the lapse of the third business day following the Prospectus issue date and shall be subject to the application for admission and introduction to trading on the regulated market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), which amounts to 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.

A day later, on 30 December 2011, the Management Board of the Warsaw Stock Exchange, based on the application referred to in Current Report No. 34/2011, adopted a resolution regarding admission and introduction to public trading on the WSE's Main Market of series B ordinary bearer shares of Lubelski Węgiel Bogdanka S.A. 3,208,111 series B ordinary bearer shares of Lubelski Węgiel Bogdanka S.A. were introduced to trading.

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

11.2 Change in the composition of the Management Board of the 7th term of office and the appointment of the Management Board of the 8th term of office

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

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

Commentary of the Company's Supervisory Board:

"In relation to the change in the position of the President of the Management Board (already in effect), and the approaching end of the Management Board's term of office in the existing composition, the Supervisory Board has reconstructed the composition and appointed the Management Board of the new term of office.

On 4 March 2013, the Management Board of the 7th term of office will be joined by Mr Roger de Bazelaire, and on 11 March – Mr Krzysztof Szlaga. Once the above changes become effective, the **Management Board of the 7th term of office**, will work in the following composition:

- Zbigniew Stopa - President of the Management Board,
- Waldemar Bernaciak - Vice-President of the Management Board for Trade and Logistics,
- Roger De Bazelaire - Vice-President of the Management Board for Economic and Financial Affairs,

- Krystyna Borkowska - Vice-President of the Management Board, Chief Accountant,
- Krzysztof Szlaga - Member of the Management Board for Procurement and Investments, and
- Lech Tor - Member of the Management Board elected by employees.

Since the day of the Company's Annual General Shareholders Meeting approving the 2012 financial statements, **the Management Board of the 8th term of office** will work in the following composition:

- Zbigniew Stopa - President of the Management Board,
- Waldemar Bernaciak - Vice-President of the Management Board for Trade and Logistics,
- Roger De Bazelaire - Vice-President of the Management Board for Economic and Financial Affairs,
- Krzysztof Szlaga – Member of the Management Board for Procurement and Investments.

The above was announced by the Company in Current Report No. 4/2013 of 25 January 2013.

11.3 Conclusion of significant agreements

11.3.1 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 Annual 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.

The above was announced by the Company in Current Report No. 3/2013 of 15 January 2013.

11.3.2 Conclusion of an Agreement with Caterpillar Mining sp. z o.o. and the Volumes of Trading with Caterpillar Global Mining Europe GmbH and its Subsidiaries per value of the Significant Agreement

On 16 April 2013, LW BOGDANKA S.A. entered into an agreement with Caterpillar Global Mining sp. z o.o. (ul. Fabryczna 6, 41-404 Mysłowice) for the supply of factory-new spare components for the ploughing systems made by BUCYRUS and CATERPILLAR, which operate in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion. In light of the above, the volumes of trading and the value of the agreements concluded between the Company and Caterpillar Global Mining Europe GmbH with registered office at Industriestrasse 1, 44534 Lünen, Germany (the "Supplier") and its subsidiaries within the last 12 months, i.e. until 16 April 2013, amounted to approx. PLN 266.6 million.

The Agreement of the highest value is the one concluded between the Company and the Supplier on 7 February 2013. It was the agreement for the supply of the longwall ploughing system EXW the mine in Bogdanka (the "Agreement").

The total value of the Agreement (the price of the ploughing system) amounts to EUR 47 million. Therefore, the estimated value of the Agreement calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 196.8 million.

The time-limit for the performance of the agreement is 30 June 2014.

1. The Client may charge the Supplier with liquidated damages if:

a) the Supplier delays the supply of a given part of the Subject Matter of the Agreement and a complete set of documents listed in the Agreement, excluding the equipment, subject to the following:

- until 1 August 2013 in the case of the first part of the Subject Matter of the Agreement — in the amount of 0.5% of EUR 5.4 million for each commenced week of delay. However, in total not more than 5% of EUR 5.4 million;

- until 30 June 2014 in the case of the second part of the Subject Matter of the Agreement — in the amount of 0.5% of EUR 41.59 million for each commenced week of delay. However, in total not more than 5% of EUR 41.59 million;

b) the Supplier delays the removal of any removable defects identified during the final acceptance of a given part of the Subject Matter of the Agreement for a period of at least 5 business days (setting another time-limit for removal of defects requires that appropriate arrangements be made between the Parties)

— in the amount of 0.1% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter), for each commenced day of delay. However, in total not more than 5% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter);

c) the Supplier delays the removal of defects and/or failure of a given part of the Subject Matter of the Agreement covered by a quality guarantee, and delays the removal of defects and/or failure within the guarantee period to such an extent which renders it impossible to use a given part of the Subject Matter of the Agreement, in accordance with applicable law, within the period of the quality guarantee and warrantee for defects — in the amount of PLN 1,000 for each commenced hour of delay in relation to the set time-limits. However, in total not more than 2.75% of the net price, depending the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of Subject Matter);

d) the Client withdraws from the Agreement for reasons attributable to the Supplier — in the amount of 10% of the net price, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).

2. The Supplier may charge the Client with liquidated damages in the amount of 10% of the net price, if the Supplier withdraws from the Agreement for reasons attributable to the Client, depending on the part of the Subject Matter of the Agreement (EUR 5.4 million in the case of the first part of the Subject Matter, and EUR 41.59 million in the case of the second part of the Subject Matter).

3. The Parties may seek damages in excess of the liquidated damages specified in the Agreement.

The equivalent of EUR 41.59 million calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement amounts to PLN 174.2 million, while the equivalent of EUR 5.4 million is PLN 22.6 million.

Other terms and conditions do not differ from the market standards.

The criterion for deeming the concluded agreements to be significant is that the volume of trading with the Supplier and its subsidiaries within the period of 12 months exceeded 10% of the value of the Company shareholders' equity.

The above was announced by the Company in Current Report No. 12/2013 of 17 April 2013.

11.3.3 Conclusion of an Additional Agreement, an Annex to the Annual Agreement and an Annex to the Significant Agreement with ENEA Wytwarzanie S.A.

On 29 March 2013, the Management Board of LW Bogdanka S.A. concluded an Annex to Long-Term Agreement for the supply of power coal No. UW/LW/01/2010 (the Long-Term Agreement) with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1.

The Annex provides for an increase in the volume of coal supplies to the power units of the ENEA Wytwarzanie Power Plant in Kozienice within the scope of the Long-Term Agreement in the years 2014, 2015 and 2016.

The Management Board also informs you that on 29 March 2013 an Annex was concluded to the Annual Agreement for the supply of power coal in 2013 (the Annual Agreement) which is attached to the Long-Term Agreement as Appendix 4. The Company informed of the Annual Agreement in its Current Report No. 3/2013 of 15 January 2013.

The Annex specifies terms of coal supply for 2013 covered by the Annual Agreement which is valid from 1 January 2013 to 31 December 2013 and concerns basic coal supplies in 2013 for the ENEA Wytwarzanie Power Plant in Kozienice, in compliance with the Long-Term Agreement.

Moreover, the Management Board informs you that on 29 March 2013 it concluded an Additional Agreement for the supply of power coal in 2013 (the Additional Agreement) with ENEA Wytwarzanie S.A. This is a separate agreement outside the scope of the Long-Term Agreement which increases the volume of supplies to the ENEA Wytwarzanie Power Plant in Kozienice as compared to the volume specified in the Long-Term Agreement.

The Additional Agreement is valid from 1 April 2013 to 31 December 2013 and concerns additional coal supplies in 2013 for the purposes of the ENEA Wytwarzanie Power Plant in Kozienice. These supplies are in addition to those specified in the Annual Agreement.

The Additional Agreement provides for the following liquidated damages: A Party to the Additional Agreement that fails to collect or supply the contracted volume of coal on quarterly basis pays the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied.

Each Party is entitled to terminate the Additional Agreement at one month's notice which commences on the first day of a month following a month in which notice was given. A Party terminating the Additional Agreement is obliged to 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 and conditions of the Additional Agreement do not differ from the market standards applied in such agreements.

The value of the said Agreements (the Annual Agreement and the Additional Agreement) binding upon LW Bogdanka S.A. and ENEA Wytwarzanie S.A. in 2013 amounts to PLN 794 million net, while the value of the entire Long-Term Agreement effective for the supplies between 2011 and 2025 currently amounts to PLN 11,166 million net.

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

The above was announced by the Company in Current Report No. 9/2013 of 29 March 2013.

11.3.4 Concluding an annex to the significant agreement with PGNIG Termika S.A.

On 29 April 2013, the Management Board of LW Bogdanka S.A. signed an annex to the Agreement of purchase and sale of the power coal with PGNIG Termika S.A. registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15, referred to in Current Report No. 13/2012 of 23 April 2012.

Under the Annex, the date for determining the supply price for 2014 shall be postponed from 30 April 2013 to 31 May 2013, and the related condition precedent, which was subject of Current Report No. 13/2012, shall read as follows:

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

Other terms and conditions of the Agreement remain unchanged and 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.

The above was announced by the Company in Current Report No. 13/2013 of 29 April 2013.

11.4 Signing of a letter of intent regarding establishing cooperation rules in implementation of a project consisting in preparation and construction of a Coal power plant.

On 8 May 2013, LW Bogdanka S.A. and Elektrownia Połaniec Spółka Akcyjna – Grupa GDF Suez Energia Polska signed a letter of intent regarding cooperation in the construction of a coal power plant in the Lublin region.

GDF SUEZ intends to build in the immediate vicinity of LW BOGDANKA a power plant with planned power of 500 MWe, and Lubelski Węgiel Bogdanka may be a key supplier of fuel in form of hard coal and coal slurry and their mixes.

The parties declared, among others, that they will jointly conduct necessary economic analyses of the project in 2013 and the appointed Project Team will take up works to agree on the terms and conditions of further co-operation.

The launch of the power plant is planned in 2020.

11.5 Employment

Employment at the Company as at 31 March 2012 and 2013 is presented in the table below:

Table 27 Employment at the Company as at 31 March 2012 and 2013

Employment	Q1 2012	Q1 2013	Dynamics Q1 2013/ Q1 2012 [%]
Total workers	3,769	3,909	103.71%
Underground workers	2,835	2,957	104.30%
Surface workers	934	952	101.93%
Full-time employees underground	317	335	105.68%
Full-time employees on the surface	286	293	102.45%
Total underground	3,152	3,292	104.44%
Total staff	4,372	4,537	103.77%

In the first quarter of 2013, the number of employees increased by 165, i.e. by 3.77% as compared to the number of employees at the end of the first quarter of 2012.

In the first quarter of 2013, 12 persons were employed at LW BOGDANKA S.A.; including 12 persons employed from outside the mining industry.

At the same time, 62 employees left the Company in the first quarter of 2013.

- 53 persons retired (pensions or disability pensions);
- 9 persons - other dismissals (including termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts, termination by an employer giving notice, termination by an employee giving notice, unpaid leave, military service).

The employee turnover rate, calculated as the product of the difference between the number of people taken on and the number of people dismissed in a given period divided by the number of employees as of the end of the first quarter of 2013, is -0.011, which shows that more people are employed than dismissed. In the first quarter of 2013 the Company did not plan to increase employment, but only to replace the retiring employees. Job offers were collected during that period.

11.6 Dismissal of a claim of a former member of the Company's Supervisory Board elected by the employees for declaring a resolution of the Annual General Shareholders Meeting invalid

On 11 April 2013, the Management Board of LW Bogdanka S.A. received a copy of ruling of the Court of Appeal in Lublin, I Civil Division, dismissing an appeal of a former member of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A. elected by the employees against the Company to declare invalid resolution No. 32 of the Annual General Shareholders Meeting of 10 May 2011, regarding amendments to the Articles of Association. The ruling in question is final and valid.

The above was announced by the Company in Current Report No. 11/2013 of 11 April 2013.

11.7 Taking measures to obtain a new licence

At the end of 2012, LW BOGDANKA S.A. commenced a procedure of acquiring rights to geological information in the "K–3" and "K–6, K–7" deposits. The next stage will involve preparing all documents necessary for obtaining a licence for extracting minerals in that area.

12. TABLES

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS:

Full Name	**Function**	**Date**	**Signature**
Zbigniew Stopa	President of the Management Board	8 May 2013	
Waldemar Bernaciak	Vice-President of the Board for Commerce and Logistics	8 May 2013	
Roger de Bazelaire	Vice-President of the Management Board for Economic and Financial Affairs	8 May 2013	
Krystyna Borkowska	Vice-President of the Management Board - Chief Accountant	8 May 2013	
Krzysztof Szlaga	Member of the Management Board for Procurement and Investments	8 May 2013	Krzysztof Szlaga
Lech Tor	Member of the Management Board elected by the employees	8 May 2013	

Bogdanka, 8 May 2013