DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2013 to 30 September 2013

6 November 2013

BOGDANKA, NOVEMBER 2013

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BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 7 November 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 "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent") as the parent, and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"), EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS") and RG Bogdanka Sp. z o.o. (hereinafter referred to as "RG Bogdanka") as the Subsidiaries.

As at the date of submitting this Report, i.e. 7 November 2013, LW BOGDANKA S.A. also held 22.41% 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 entities of the Lubelski Węgiel BOGDANKA Group subject to consolidation

The Subsidiaries Łęczyńska Energetyka, EkoTRANS Bogdanka and RG Bogdanka were included in the condensed quarterly consolidated financial statements of the LW BOGDANKA Group for the third quarter of 2013 ("Condensed Quarterly Consolidated Financial Statements") by the full consolidation method.

1.2.1 Information on the Parent of the Lubelski Węgiel BOGDANKA Group

Parent of the LW BOGDANKA Group:

Lubelski Węgiel BOGDANKA Spółka Akcyjna
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 frameworks of utilising Carboniferous rock waste stone in the EkoKLINKIER Construction Ceramics Plant.

1.2.2 Information on the Subsidiaries and the associate

Subsidiaries:

A) Łęczyńska Energetyka Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. +48 81 443 11 02, +48 81 462 55 53
Fax: +48 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 30 September 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 the mine involving supplying heat energy and conducts water/wastewater management.

B) EkoTRANS BOGDANKA Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów,
Tel. +48 81 462 52 15
Fax: +48 81 462 52 15
Website: -
E-mail: biuro@ekotrans-bogdanka.pl
Industry Identification Number (REGON): 06155187
Tax Reg. No. 505-012-39-60

Share capital amounts to PLN 100,000.00 and is divided into 100 shares of PLN 1,000.

Shareholding structure: 100% Lubelski Węgiel BOGDANKA S.A.

EkoTRANS provides services to the mine with respect to recovery of spoil arising during coal- associated shale cleaning and washing.

C) RG Bogdanka Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów,
Tel. +48 81 462 50 86
Fax: -
Website: -
E-mail: poczta@rgbogdanka.pl
Industry Identification Number (REGON): 243255890
Tax Reg. No. 627-273-54-05

Share capital of RG Bogdanka Sp. z o.o. amounts to PLN 500,000.00 and is divided into 10,000 shares of PLN 50.

Shareholding structure: 100% Lubelski Węgiel BOGDANKA S.A.

The business activities of RG Bogdanka Sp. z o.o. consists in providing services, supplies and construction works for the benefit of LW BOGDANKA S.A.

The Group's associate:

EKSPERT Sp. z o.o.

Address: Bogdanka, 21-013 Puchaczów, Lublin Province
Tel. +48 81 462 20 62
Fax: +48 81 462 20 62
Website: -
E-mail: wkekspert@wp.pl
Industry Identification Number (REGON): 432693862
Tax Reg. No. 505-000-15-99

Share capital (as at 30 June 2013): PLN 50,000.00 divided into 100 shares of PLN 500. The share of Łęczyńska Energetyka Sp. z o.o. in the share capital and votes at the Shareholders Meeting: 50.00 %.

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

Ekspert Sp. z o.o. was removed from the National Court Register on 3 July 2013. As a result, the liquidation procedure of this company was completed.

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

The third quarter of 2013 saw the following changes in the structure of the LW BOGDANKA Group:

On 2 July 2013, the Parent acquired 100 (one hundred) shares in Eltrans-Mining RG Sp. z o.o., with its registered office in Chorzów, representing 100% of the share capital of Eltrans-Mining RG Sp. z o.o., together with all rights, privileges and obligations under the shares. Under notary deed Rep. A No. 2382/2013, as a result of amendments made to the deed of incorporation of Eltrans-Mining RG Sp. z o.o., with its registered office in Chorzów, Eltrans-Mining RG Sp. z o.o. operates under the name RG Bogdanka Sp. z o.o., with its registered office in Bogdanka.

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE FIRST HALF OF 2013

2.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting ("GSM"), either directly or indirectly through subsidiaries, as at the date of submitting the quarterly 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 29 August 2013 and 7 November 2013.

Shareholder	29 August 2013		7 November 2013	
	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM (%)	Number of shares/ Number of votes at the GSM	The share in the share capital and the share in the total number of votes at the GSM (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,107,181	15.02	5,107,181	15.02
Otwarty Fundusz Emerytalny PZU "Złota Jesień" **	3,320,377	9.76	3,320,377	9.76
ING Otwarty Fundusz Emerytalny ***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,575,885	60.49	20,575,885	60.49
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

*According to the notification received on 3 July 2013, described in Current Report No. 26/2013.
** 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.

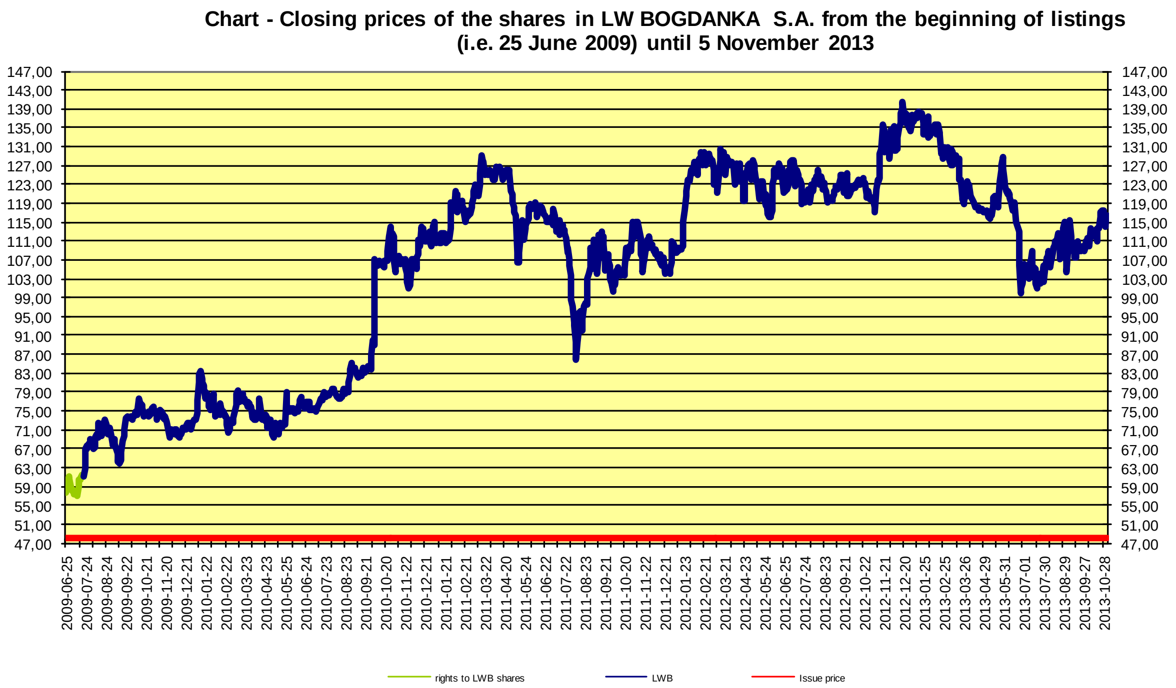
By virtue of the Resolution of 30 September 2013, as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, and each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. Options confer the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, confer the right to acquire series D shares.

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 report for the third quarter of 2013, and changes in shareholdings in the period from the publication of the last semi-annual report, separately for each person

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

	Number of shares as at the date of submitting the Report for H1 2013 (29 August 2013)	**Number of shares as at the date of submitting the Report for Q3 2013 (7 November 2013)**
Management Board		
Zbigniew Stopa	5,703	5,703
Roger de Bazelaire	0	0
Waldemar Bernaciak	2,162	2,162
Krzysztof Szlaga	0	0
The Supervisory Board appointed at the Annual General Shareholders Meeting		
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 IPO on the Warsaw Stock Exchange.



3. PRINCIPLES OF DRAWING UP THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed quarterly consolidated financial statements of the LW Bogdanka Group for the third quarter of 2013 were prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting".

The condensed quarterly consolidated financial statements were drawn up in accordance with the historical cost principle, taking into account a valuation at fair value of certain property, plant and equipment in connection with the adoption of fair value as a deemed cost, which was carried out on the date of the transition to the IFRS, i.e. 1 January 2005.

Drawing up the condensed quarterly consolidated financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates. It also requires that the Management Board exercises its own judgement when applying the accounting principles adopted by the Group. The main estimates and judgements have not changed since the publication of the annual consolidated financial statements for 2012.

The condensed quarterly consolidated financial statements were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period in connection with applying amendments to IAS 19 "Employee Benefits".

The condensed quarterly consolidated financial statements follow the same accounting principles (policies) and calculating methods as the latest annual consolidated financial statements, with the exception of:

- change in the accounting principles related to the amendments to IAS 19 "Employee benefits",

- financial instruments measured at fair value in accordance with IFRS 13.

Detailed data on the impact of the amendments to IFRS 13 and IAS 19 on the Condensed quarterly consolidated financial statements is disclosed in section 2 of the Condensed quarterly consolidated financial statements of the LW BOGDANKA Group for the third quarter 2013 ended on 30 September 2013.

The Group applied the amendments to IAS 19 as of 1 January 2013 and recognises actuarial gains/losses arising from the measurement of post-employment defined benefit plans in other comprehensive income. Because of retroactive application of the amendments, the quarterly consolidated income statement and the quarterly consolidated statement of comprehensive income include restated data for the period ended 30 September 2012. Accordingly, there was a change to the quarterly consolidated statement of changes in equity as at 30 September 2012. These changes did not affect the consolidated statement of financial position as at 31 December 2012.
The condensed quarterly consolidated financial statements for the third quarter of 2012 were restated to the conditions applicable currently based on the actuarial valuation prepared by an actuary for the first 6 months of 2012.

4. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE CONDENSED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE THIRD QUARTER OF 2013, I.E. FROM 1 JANUARY 2013 TO 30 SEPTEMBER 2013

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2013 to 30 September 2013, calculated on the basis of the financial data included in the quarterly consolidated financial statements of the LW BOGDANKA Group, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union. Due to the amendments in IFRS 13 and IAS 19 "Employee Benefits" the condensed interim consolidated financial statements for three quarters of 2013 were prepared using the same accounting principles for the current and comparative periods, with adjustment of the comparative period to comparable conditions in order to reflect changes in the accounting principles and presentation adopted in the financial statements in the current period.

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 regularly settles its contracted liabilities. Financial resources are managed properly and in accordance with the Group's Strategy. The analyses of financial resources – held and planned – are carried out on an ongoing basis.

Works for optimisation of the mining process (in terms of technology and maximising the output with the current geologic conditions) are systematically carried out. Works are pending with a view to making new excavations available in order to maintain continuity of extraction in next years. Next stages of the major investment programme of the Parent are pursued in order to achieve the assumed strategic objectives.

4.1 Production, sale and inventories of coal

In the third quarter of 2013, the production of commercial coal in the Parent increased by nearly 14% compared to the same period of 2012. And the three quarters of 2013 saw an increase in production by 2.81% compared to the same period of 2012.

Table 3 LW BOGDANKA S.A. commercial coal production for Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012 ['000 tonnes]

Q3 2013	Q3 2012	3Qs 2013	3Qs 2012	Change Q3 2013 / Q3 2012	Change 3Qs 2013 / 3Qs 2012
2,156.47	1,892.55	6,238.28	6,067.61	13.95%	2.81%

Table 4 Structure of commercial coal production by LW BOGDANKA for Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012

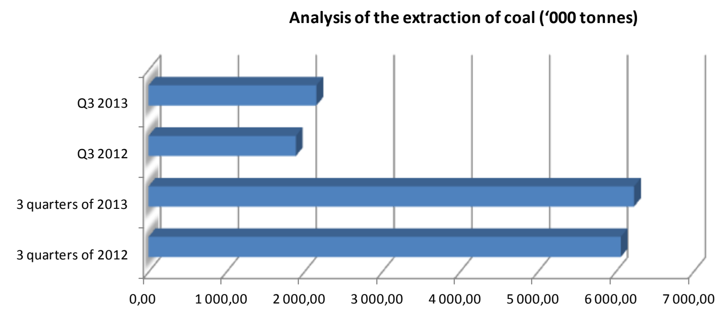
	Q3 2013	Q3 2012	3Qs 2013	3Qs 2012	Q3 2013 / Q3 2012	3Qs 2013 / 3Qs 2012
Fine coal	96.05%	98.34%	97.32%	98.04%	97.67%	99.26%
Nut coal	2.36%	0.25%	1.32%	0.14%	928.08%	919.45%
Pea coal	1.59%	1.40%	1.37%	1.82%	113.46%	75.10%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

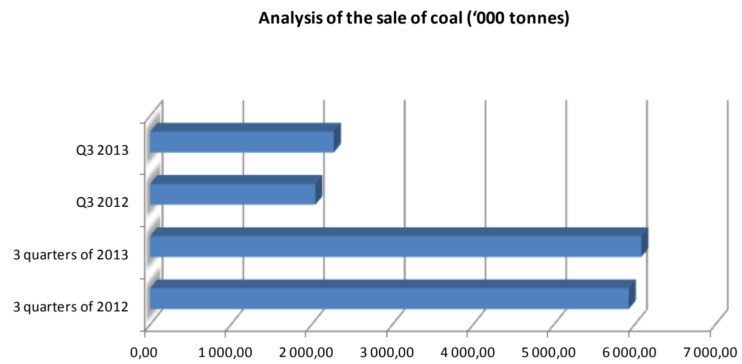
In all analysed periods the structure of production did not change significantly – power fine coal remained the dominant assortment (its share in the production was in the range 96%-98%).

In the third quarter of 2013 the sale of coal grew by over 11% compared to the third quarter of 2012, while in the three quarters of 2013 the sales went up by nearly 3% compared to the three quarters of the previous year.

Table 5 LW BOGDANKA S.A. commercial coal sale for Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012 ['000 tonnes]

Q3 2013	Q3 2012	3Qs 2013	3Qs 2012	Change Q3 2013 / Q3 2012	Change 3Qs 2013 / 3Qs 2012
2,275.83	2,047.90	6,084.97	5,929.31	11.13%	2.63%



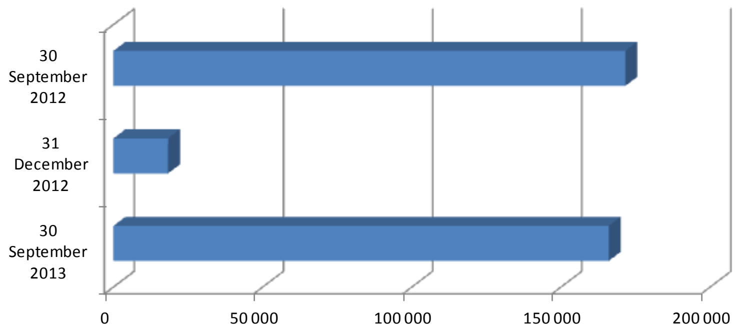


The level of coal inventories in the Parent depends on the season. At the end of the third quarter of 2013 it was 171,590.71 tonnes, which means an increase by 5,530.23 tonnes, i.e. by 3.33%, compared to the level as at 30 September 2012; at the same time it was higher by 153,263.17 tonnes than as at 31 December 2012. The level of coal inventories presented at the end of the third quarter of 2013 corresponds to approximately six days of commercial coal production by the Parent.

Table 4 Inventories of coal after 3Qs 2013 and 3Qs 2012 and at the end of 2012 [tonnes]

Item	30 Sep. 2013	31 Dec. 2012	30 Sep. 2012	Change [%] (30 Sep. 2013/ 31 Dec. 2012)	Change [%] (30 Sep. 2013/ 30 Sep. 2012)
Inventories of coal	171,590.71	18,327.54	166,060.48	836.25%	3.33%

Coal inventories (tonnes)



4.2 Revenue

In the third quarter of 2013 the LW BOGDANKA Group generated revenue of PLN 539,395,000, which means an increase by over 11% compared to the third quarter of 2012. And from January to September 2013 the Group generated revenue of PLN 1,418,299,000, which means a year-to-year increase by nearly 2%.

The main source of the Group's revenue is the production and sale of power coal. In each of the compared reporting periods this activity generates 96%-97% of the Group's revenue. In the third quarter of 2013 the Group noted an increase in revenue from coal sales by over 10% compared to the third quarter of 2012. In the three quarters of 2013, revenue from coal sales went up by nearly 1% compared to the same period of the previous year. In the quarterly consolidated financial statements published by the Group, for presentation purposes, data in the quarterly consolidated income statement concerning revenue from coal sales and costs of products, goods and materials sold are adjusted (downwards) by the value of sold coal that was obtained during drilling of excavations. Bearing in mind the above, the value disclosed in the quarterly consolidated income statement for the period from 1 January to 30 September 2013 was adjusted by PLN 72,683,000, while in the same period of the previous year – by PLN 60,163,000.

Circa 90% of coal sales (in terms of value) realised in the period from 1 January to 30 September 2013 (as in the same period of the previous year) were carried out on the basis of long–term commercial agreements between LW BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., PGNiG Termika S.A., Zakłady Azotowe Puławy S.A., EDF Paliwa Sp. z o.o. and Elektrownia Ostrołęka S.A.

Table 5 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012 [PLN '000]

Item	Q3 2013	Q3 2012	3Qs 2013	3Qs 2012	change [%] (Q3 2013 / Q3 2012)	change [%] (3Qs 2013 / 3Qs 2012)
Sales of coal	518,030	470,125	1,360,770	1,348,281	10.19%	0.93%
Sales of ceramics	1,902	1,281	3,920	5,007	48.48%	-21.71%
Other activities	17,119	10,409	46,387	29,368	64.46%	57.95%
Sales of goods and materials	2,344	3,887	7,222	9,584	-39.70%	-24.65%
Total revenue	**539,395**	**485,702**	**1,418,299**	**1,392,240**	**11.05%**	**1.87%**

In the third quarter 2013, the revenue from other activities accounted for 3.17% of the total revenue, compared to 2.14% 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 for the benefit of some customers (this item contributed primarily to the increased revenue in that group), revenue of Łęczyńska Energetyka from sale of heat and other services, as well as revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials dropped to 0.43% in Q3 2013 from 0.80% in Q3 2012. In the analysed period of 2013 and 2012, the dominant position in the amount was revenue from the sales of scrap.

Table 6 Structure by product range of revenue of the LW BOGDANKA Group in Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012

Item	Q3 2013	Q3 2012	3Qs 2013	3Qs 2012
Sales of coal	96.04%	96.79%	95.94%	96.84%
Sales of ceramics	0.35%	0.26%	0.28%	0.36%
Other activities	3.17%	2.14%	3.27%	2.11%
Sales of goods and materials	0.43%	0.80%	0.51%	0.69%
Total revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The activities of the Group are primarily concentrated in Poland. During the analysed period of both 2013 and 2012, export sales constituted a fraction of revenue generated and concerned only sales of ceramics. The share of export in the total revenue did not exceed 0.1%.

Table 7 Geographic structure of revenue of the Group in Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012 [PLN '000]

Item	Q3 2013	% share	Q3 2012	% share	3Qs 2013	% share	3Qs 2012	% share
Domestic sales	538,920	99.91%	485,389	99.94%	1,417,440	99.94%	1,391,498	99.95%
Export sales	475	0.09%	313	0.06%	859	0.06%	742	0.05%
Total revenue	539,395	100.00%	485,702	100.00%	1,418,299	100.00%	1,392,240	100.00%

4.3 Costs of LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and by function. The recording of 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, as in the presented formula, 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 (commercial coal) or whether they have been used by the Company to finance the construction of a given facility (including longwall galleries) at its own and in the future, following the completion and settlement of a given investment task, they will be capitalised and depreciated as non-current assets, constituting depreciation/amortisation costs of the period in question.

4.3.1 Costs by type

In the third quarter of 2013 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 451,997,000, which means that the costs were higher by 2.91% than in the third quarter of 2012; costs for the three quarters of 2013 were higher by 6.36% compared to the three quarters of 2012 and amounted to PLN 1,322,959,000 and PLN 1,243,813,000, respectively. The increase in costs in the third quarter of 2013 was largely the result of recorded increase in costs of material and energy consumption, and increased depreciation and amortisation costs. With incurred costs of energy going up slightly (below 1% on a year-to-year basis), the costs of materials in the third quarter of 2013 went up by over 20% compared to the same period of the previous year, which was caused mainly by much larger extent of performed preparatory works – in the third quarter of 2013 the Company completed 2,196 running metres galleries more (+39%) than in the third quarter of 2012; the total length of galleries completed after 9 months of 2013 is 21,223 running metres compared to 16,696 running metres in the same period of the previous year (+27%).

The value of external services in the third quarter of 2013 went down from PLN 113,022,000 to PLN 102,442,000 (-9.37%). In the 9 months of 2013, external services are at a level slightly lower than in the same period of the previous year. The third quarter saw a decrease in the value of drilling and mining works (in connection with drilling and reconstructing excavations) and other services contracted to external companies (among others transport of stone); whereas the cost of railway transport services went up (higher coal sales). It should be noted that the above railway transport costs are subsequently reinvoiced to the ultimate coal recipient.

An increase in other costs by type results from higher expenditure for entertainment and advertising and higher compensations for mining damage in buildings and structures.

Both in the third quarter of 2013 and in the 9 months of 2013 the costs of depreciation and amortisation are higher than in the same periods in 2012. This is caused by the increased value of the Company's property in connection with implemented development strategy.

The result of an adjustment of costs by type by change in products and accruals and deferrals, the costs of own work and the costs of goods and materials sold, will give own selling costs for the third quarter of 2013 amounting to PLN 395,023,000. As compared to the third quarter of the previous year (with a year-to-year increase in the amount of sold coal by 11.13%), it is higher by 1.58%. The calculated unit cost of production of sold coal went down in the third quarter of 2013 by ca. 10% as compared to the third quarter of 2012.

Table 8 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	Q3 2013	Q3 2012	9 months of 2013	9 months of 2012	change [Q3 2013 / Q3 2012]	change [9 months of 2013 / 9 months of 2012]
Amortisation/depreciation	80,464	77,728	240,039	228,214	3.52%	5.18%
Materials and energy consumption	139,011	117,335	380,707	326,637	18.47%	16.55%
External services	102,442	113,027	313,188	313,770	-9.37%	-0.19%
Employee benefits	113,493	115,965	340,194	323,764	-2.13%	5.07%
Entertainment and advertising costs	2,620	2,367	6,644	7,345	10.69%	-9.54%
Taxes, fees and charges	8,953	8,304	24,977	24,238	7.82%	3.05%

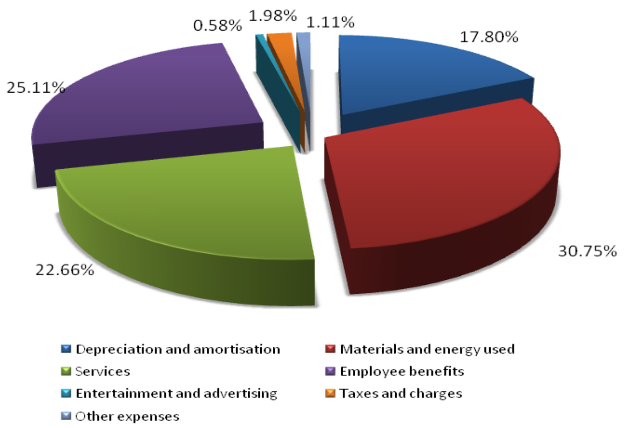
Other costs	5,014	4,495	17,210	19,845	11.55%	-13.28%
TOTAL COSTS BY TYPE	**451,997**	**439,221**	**1,322,959**	**1,243,813**	**2.91%**	**6.36%**
Change in inventory of products and accruals and deferrals	45,916	31,406	22,242	3,136	46.20%	609.25%
change in products	20,031	22,093	*-26,434*	*-25,434*	-9.33%	3.93%
change in prepaid expenses	8,433	-5,322	*-2,869*	*-15,336*	-258.46%	-81.29%
change in accrued expenses	17,452	14,635	*51,545*	*43,906*	19.25%	17.40%
Cost of operating activities	**497,913**	**470,627**	**1,345,201**	**1,246,949**	**5.80%**	**7.88%**
Activities for the Company's own needs	105,233	85,616	267,124	202,088	22.91%	32.18%
Value of goods and materials sold	2,343	3,856	7,141	9,410	-39.24%	-24.11%
Own selling cost	**395,023**	**388,867**	**1,085,218**	**1,054,271**	**1.58%**	**2.94%**

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the third quarter of 2013 the costs of materials and energy consumption went up to 30.75% of the total costs (26.71% a year before), whereas the share of employee benefits and external services went down (to 25.11% and 22.66% respectively). The above three groups generate nearly 80% of the costs in the Parent.

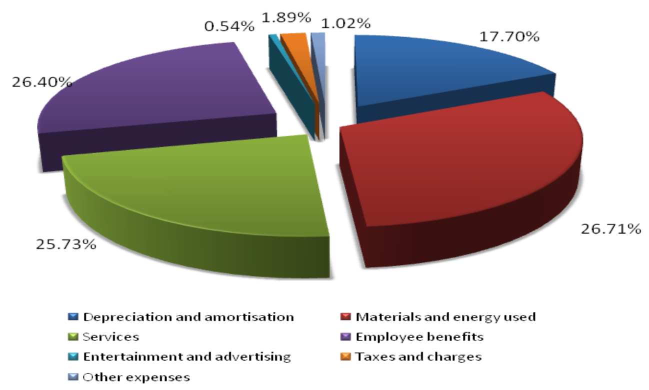
Table 9 Structure of costs by type at LW BOGDANKA S.A.

Item	**Q3 2013**	**Q3 2012**	**9 months of 2013**	**9 months of 2012**	**change [Q3 2013 / Q3 2012]**	**change [9 months of 2013 / 9 months of 2012]**
Amortisation/depreciation	17.80%	17.70%	18.14%	18.35%	0.56%	-1.14%
Materials and energy consumption	30.75%	26.71%	28.78%	26.26%	15.13%	9.60%
External services	22.66%	25.73%	23.67%	25.23%	-11.93%	-6.18%
Employee benefits	25.11%	26.40%	25.71%	26.03%	-4.89%	-1.23%
Entertainment and advertising costs	0.58%	0.54%	0.50%	0.59%	7.41%	-15.25%
Taxes, fees and charges	1.98%	1.89%	1.89%	1.95%	4.76%	-3.08%
Other costs	1.11%	1.02%	1.30%	1.60%	8.82%	-18.75%
TOTAL COSTS BY TYPE	**100.00%**	**100.00%**	**100.00%**	**100.00%**		

Structure of costs by type in Q3 2013



Structure of costs by type in Q3 2012



4.3.2 Costs by function

In the third quarter of 2013 the own selling costs (by function) amounted to PLN 395,023,000 and was higher by 1.58% than the cost in the third quarter of 2012, and in the 9 months of 2013 it was higher by 2.94% compared to the same period of 2012. The increased own selling costs between the analysed periods is caused, among others, by employee provisions created in 2013, which was not made in the previous year (details in section 4.4).

Table 10 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	Q3 2013	Q3 2012	9 months of 2013	9 months of 2012	change [Q3 2013 / Q3 2012]	change [9 months of 2013 / 9 months of 2012]
Costs of products, goods and materials sold	357,423	355,543	981,935	959,774	0.53%	2.31%
Selling costs	12,558	13,102	33,882	33,241	-4.15%	1.93%
Administrative costs	25,042	20,222	69,401	61,256	23.84%	13.30%
Own selling cost	**395,023**	**388,867**	**1,085,218**	**1,054,271**	**1.58%**	**2.94%**

The structure of costs by function is presented in the table below.

Table 11 Structure of costs by function at LW BOGDANKA S.A.

Item	Q3 2013	Q3 2012	9 months of 2013	9 months of 2012	Change [Q2 2013 / Q2 2012]	Change [2Qs 2013 / 2Qs 2012]
Costs of products, goods and materials sold	90.48%	91.43%	90.48%	91.04%	-1.04%	-0.62%
Selling costs	3.18%	3.37%	3.12%	3.15%	-5.64%	-0.95%
Administrative costs	6.34%	5.20%	6.40%	5.81%	21.92%	10.15%
Own selling cost	**100.00%**	**100.00%**	**100.00%**	**100.00%**		

4.4 Provisions at LW BOGDANKA S.A.

Table 12 Balance-sheet provisions in LW BOGDANKA S.A. as at the end of Q3 2013 and Q3 2012 and as at the end of 2012

[PLN '000]

Item	as at 30 September 2013	as at 30 September 2012 restated	change 2013/2012 [%]	as at 31 December 2012	change 2013/2012 [%]
Employee provisions	228,052	161,743	41.0%	190,652	19.6%
Property tax liabilities (for the working)	12,759	22,087	-42.2%	9,502	34.3%
Provision for costs of mine liquidation	98,186	77,634	26.5%	89,861	9.3%
Mostostal Warszawa S.A.	0	0	-	0	-
Other	32,615	25,551	27.6%	36,497	-10.6%
TOTAL	**371,612**	**287,015**	**29.5%**	**326,513**	**13.8%**

The overall provisions as at 30 September 2013 amounted to PLN 371,612,000, which means an increase by 13.8% compared to the value as at the end of the year and by 29.5% compared to the provisions disclosed as at 30 September 2012.

The balance of provisions for the third quarter of 2013 amounted to PLN +11,757,000 compared to PLN -21,104,000 in 2012. The negative balance in 2012 results from reversal of a provision in the amount of PLN 25 million for claims for future investment liabilities regarding the settlement of additional and replacement works performed by Mostostal Warszawa S.A. in the Parent's facilities, i.e. the Mechanical Coal Processing Plant in Bogdanka. The balance of employee provisions in the third quarter of 2013 amounted to PLN +10,295,000 compared to PLN -2,390,000 in the third quarter of 2012.

The balance of provisions for the three quarters of 2013 compared to same period of the previous year increased by 66.9% to PLN +45,100,000.

Table 13 Balance of provisions in LW BOGDANKA S.A. for Q3 2013 and Q3 2012 and 3Qs 2013 and 3Qs 2012

[PLN '000]

Item	Q3 2013	Q3 2012	Change 2013/2012	3Qs 2013	3Qs 2012	Change 2013/2012
Employee provisions	10,295	-2,390	-	37,400	15,308	144.3%
Property tax liabilities (for the working)	1,086	1,906	-43.0%	3,257	5,500	-40.8%
Provision for costs of mine liquidation	1,831	0	-	8,325	777	971.4%
Mostostal Warszawa S.A.	0	-25,000	-100.0%	0	0	-
Other	-1,455	4,380	-	-3,882	5,435	-
TOTAL	**11,757**	**-21,104**	**-**	**45,100**	**27,020**	**66.9%**

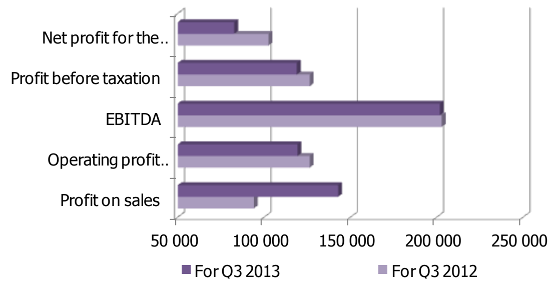
4.5 Selected financial data

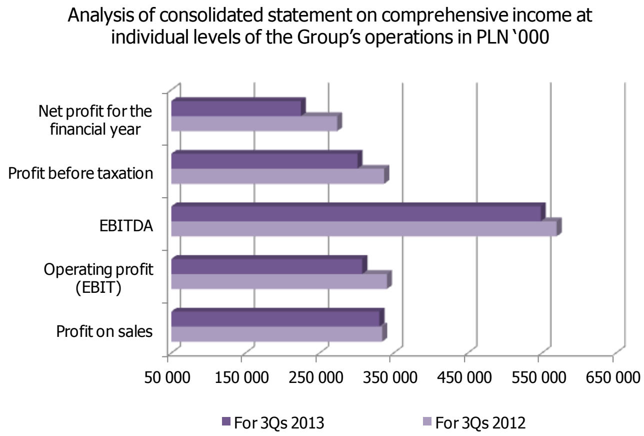
4.5.1 Group's revenue, costs, profit and loss

Table 14 Analysis of consolidated income statement [PLN '000]

Item	Q3 2013	Q3 2012	Change % (2013/ 2012)	3Qs 2013	3Qs 2012	Change % (2013/ 2012)
Revenue	539,395	485,702	11.05%	1,418,299	1,392,240	1.87%
Cost of products, goods and materials sold, selling costs, administrative costs	396,493	391,582	1.25%	1,087,669	1,057,874	2.82%
Profit on sales	142,902	94,120	51.83%	330,630	334,366	-1.12%
Profit on sales margin (Gross margin)	26.49%	19.38%	36.69%	23.31%	24.02%	-2.96%
Other income	384	29,957	-98.72%	2,292	31,525	-92.73%
Other costs	383	237	61.60%	925	680	36.03%
Net operating profit/loss	142,903	123,840	15.39%	331,997	365,211	-9.09%
Other net profit/loss	-23,500	2,590	-1,007.34%	-24,438	-24,433	0.02%
Operating profit (EBIT)	119,403	126,430	-5.56%	307,559	340,778	-9.75%
EBIT margin	22.14%	26.03%	-14.94%	21.69%	24.48%	-11.40%
EBITDA	201,791	202,900	-0.55%	548,341	569,776	-3.76%
EBITDA margin	37.41%	41.77%	-10.44%	38.66%	40.93%	-5.55%
Finance income	2,535	4,577	-44.61%	5,439	10,243	-46.90%
Finance costs	2,944	4,559	-35.42%	12,029	13,894	-13.42%
Share in (losses)/ profits of associates	0	0	-	0	0	-
Profit before taxation	118,994	126,448	-5.89%	300,969	337,127	-10.73%
Pre-tax profit margin	22.06%	26.03%	-15.25%	21.22%	24.21%	-12.35%
Income tax	36,295	23,843	52.22%	76,236	63,445	20.16%
Net profit for the financial year	82,699	102,605	-19.40%	224,733	273,682	-17.89%
Net profit margin	15.33%	21.13%	-27.45%	15.85%	19.66%	-19.38%
- attributable to owners of the Company	82,694	102,982	-19.70%	224,438	273,672	-17.99%

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





4.5.1.1 Revenue

The value of the Group's revenue for the third quarter of 2013 increased by over 11% compared to the same period of the previous year and amounted to PLN 539,395,000. In the 9 months of 2013, the Group recorded an increase in revenue of nearly 2% compared to the same period of 2012 (it generated PLN 1,418,299,000 in 2013 compared to PLN 1,392,240,000 in 2012).

4.5.1.2 Cost of products, goods and materials sold, selling costs, administrative costs

In the third quarter of 2013 the costs of products, goods and material sold plus selling and administrative costs went up by 1.25% compared by the same period of the previous year and amounted to PLN 396,493,000. When data for the 9 months is analysed, the year-to-year increase was 2.82%. The increase in costs is connected among others with provisions for future employee benefits created in the current year, increased costs of material consumption, increased costs of employee benefits and increased depreciation and amortisation, with decreasing costs of external services.

4.5.1.3 Profit on sales

The profit on sales in the third quarter of 2013 went up by 51.83% compared to the third quarter of 2012 and amounted to PLN 142,902,000, whereas in the 9 months of 2013 the profit went down by over 1% compared to the same period of 2012.

4.5.1.4 Other income

In the three quarters of 2013 the other income went down by 92.73% compared to the same period of 2012 – 2012 saw reversal of a provision for claims for future investment liabilities regarding the settlement of additional and replacement works performed by Mostostal Warszawa S.A. in the Parent's facilities, i.e. the Mechanical Coal Processing Plant in Bogdanka.

4.5.1.5 Other costs and other net profits/losses

In the third quarter of 2013 other profits/losses amounted to PLN -23,500,000, while in the third quarter of 2012 they equalled PLN +2,590,000, which means a change of PLN 26,090,000. In connection with technical and economic analyses carried out within the Group, a write-off on account of permanent impairment of property in the amount of PLN 22,647,000 was made.

4.5.1.6 EBIT

The operating profit in the third quarter of 2013 amounted to PLN 119,403,000 and was lower by 5.56% compared to the third quarter of 2012, whereas EBIT for the 9 months of 2013 was lower by 9.75% than in the same period of the previous year. EBIT margin in the third quarter of 2013 was 22.14%, i.e. it was lower by 3.89 pp than in the third quarter of the previous year. When data for the three quarters is analysed, a decrease of 11% (-2.79 pp) in EBIT margin is observed.

4.5.1.7 EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the third quarter of 2013 went down by 0.55% compared to the third quarter of 2013 and amounted to PLN 201,791,000. A decrease in EBITDA was lower than a decrease in EBIT, which means that depreciation and amortisation in the analysed period of 2013 was higher than in the same period of 2012. And in the three quarters of 2013 a decrease in EBITDA of 3.76% was noted, with EBIT going down by 9.75%.

EBITDA margin in the third quarter of 2013 was 37.41% and lower than in the same analysed period in 2012. When data for the 9 months of 2012 and 2013 is analysed, a decrease in EBITDA margin (by 5.55% i.e. 2.27 pp) is noted, in the three quarters of 2013 it was 38.66%.

4.5.1.8 Finance income

The finance income in the third quarter of 2013 amounted to PLN 2,535,000, which means a decrease of ca. 45% compared to the same period in the previous year. Decreased income has been caused by lower levels of cash available during the year within the Group.

4.5.1.9 Finance costs

The finance costs for the 9 months of 2013 amounted to PLN 12,029,000 compared to PLN 13,894,000 in the 9 months of 2012 (decrease by 13.42%). In the analysed period of 2013 more interest was included under expenditure for non-current assets in construction, at the same time the value of interest accrued and paid was also lower. In the third quarter of 2013 finance costs amounted to PLN 2,944,000 and was lower by 35.42% than in the third quarter of 2012.

4.5.1.10 Profit before taxation

In the third quarter of 2013 the Group generated pre-tax profit which was lower by 5.89% than in the third quarter of 2012. In the 9 months of 2013 the Group generated pre-tax profit of PLN 300,969,000 compared to PLN 337,127,000 a year before – the profit went down by 10.73%.

4.5.1.11 Net profit

In the third quarter of 2013 the Group generated net profit lower by 19.4% than in the third quarter of 2012 – it amounted to PLN 82,699,000 in 2013 compared to PLN 102,605,000 in 2012. And net profit for the 9 months of 2013 reached PLN 224,733,000, which means a decrease by nearly 18% compared to the same period of 2012.

4.5.2 The Group's operating profit without provisions and non-recurring items

The Group's operating profit for the third quarter of 2013 amounted to PLN 119,403,000 and was lower by 5.56% compared to the profit for the third quarter of 2012; the profit for the three quarters of 2013 was lower by 9.75% on a year-to-year basis. Decreased EBIT was caused, among others, by a change in provisions and the balance of non-recurring items.

Table 17 Group's operating profit adjusted for provisions and non-recurring items for Q3 2013 and Q3 2012 and 3Qs 2012 [PLN '000]

Item	Q3 2013	Q3 2012	Change 2013/2012	3Qs 2013	3Qs 2012	Change 2013/2012
Revenue	539,395	485,702	11.05%	1,418,299	1,392,240	1.87%
Cost of products, goods and materials sold, selling costs, administrative costs	-396,493	-391,582	1.25%	-1,087,669	-1,057,874	2.82%
Other income	384	29,957	-98.72%	2,292	31,525	-92.73%
Other costs	-383	-237	61.60%	-925	-680	36.03%
Other net profit/loss	-23,500	2,590	-	-24,438	-24,433	0.02%
EBIT	**119,403**	**126,430**	**-5.56%**	**307,559**	**340,778**	**-9.75%**

EBIT margin	**22.14%**	**26.03%**	**-14.94%**	**21.69%**	**24.48%**	**-11.40%**
Adjustment for change in provisions	12,073	-21,124	-	45,385	27,018	67.98%
Adjustment for non-recurring items (other operating income + other costs + other net profit/loss	23,499	-7,310	-	23,071	-6,412	-
Adjusted EBIT	**154,976**	**97,997**	**58.14%**	**376,014**	**361,385**	**4.05%**
Adjusted EBIT margin	**28.73%**	**20.18%**	**42.37%**	**26.51%**	**25.96%**	**2.12%**

Adjusted EBIT (EBIT + change in provisions – non-recurring items) in the third quarter of 2013 reached PLN 154,676,000 compared to PLN 97,997,000 a year before (increase by 58.14%). Adjusted EBIT for the three quarters of 2013 was higher by 4.05% than EBIT for the three quarters of 2012 and amounted to PLN 373,014,000.

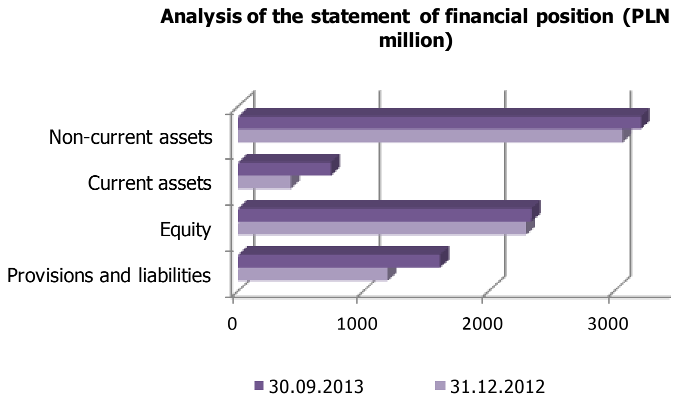
4.5.3 Balance sheet

Table 158 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	30 September 2013	31 December 2012	Change [%] 2013/2012
Total assets	3,950,712	3,485,156	13.36%
Return on Assets (ROA) annualised*	6.56%	8.83%	-25.71%
Non-current assets	3,210,863	3,063,653	4.81%
Current assets	739,849	421,503	75.53%
Equity	2,340,626	2,296,374	1.93%
Return on Equity (ROE)	10.42%	13.06%	-20.21%
Provisions and liabilities	1,610,086	1,188,782	35.44%

* Annualised net profit (sum for the three quarters of 2013 and for the fourth quarter of 2012) / average assets as at 30 September 2012 and 30 September 2013

** Annualised net profit (sum for the three quarters of 2013 and for the fourth quarter of 2012) / average equity as at 30 September 2012 and 30 September 2013



4.5.3.1 Assets

The balance-sheet total as at 30 September 2013 went up by 13.36% to the amount of PLN 3,950,712,000 compared to the value as at 31 December 2012 (increase of PLN 465,556,000). Non-current assets increased by nearly 5%, which is largely the result of the investment programme carried out by the Parent. Current assets went up by over 75%, with the value of inventories going up by over 56%, trade and other receivables going up by ca. 90%, and cash and cash equivalents going up by over 66%. The increased value of total inventories in the Group is mainly the consequence of increased coal inventories at the Parent – change in coal inventory level is seasonal.

As at 30 September 2013, the return on assets went down by 2.27 pp and amounted to 6.56% on the balance sheet date.

4.5.3.2 Equity and liabilities

The equity went up by 1.93%. It was the result of distribution of profit for the previous year effected by the General Shareholders Meeting and adding net profit/loss for the 9 months of 2013 to equity.

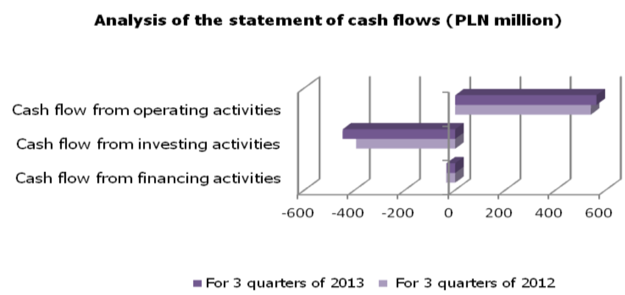
Provisions and liabilities went up by over 35% compared to the value as at 31 December 2012, which was the result of increased current liabilities (dividend); in addition the debt was increased by two tranches of notes of PLN 150,000,000 issued in September.

As at 30 September 2013 a decrease of 20.21% in annualised return on equity compared to the end of 2012 was noted. The value of annualised ratio as at 30 September 2013 was 10.42% compared to 13.06% as at 31 December 2012.

4.5.4 Cash flows

Table 169 Consolidated cash flows in 3Qs 2012 and 3Qs 2013 and Q3 2012 and Q3 2013 [PLN '000]

Item	Q3 2013	Q3 2012	Change [%] 2013/2012	3Qs 2013	3Qs 2012	Change [%] 2013/2012
Cash flow from (used in) operating activities	240,341	182,784	31.49%	562,998	540,248	4.21%
Cash flow from (used in) investing activities	-162,918	-164,302	-0.84%	-448,209	-394,739	13.55%
Cash flow from (used in) financing activities	-28,807	-136,050	-78.83%	-34,830	-36,050	-3.38%



In the third quarter of 2013 the Group generated net cash flow from operating activities higher by 31.49% than in the third quarter of 2012, in the period from 1 July to 30 September 2013 it amounted to PLN 240,341,000 compared to PLN 182,784,000 a year before. Cash flow from investing activities increased (in absolute terms) during the 9 months of 2013 by 13.55% (to PLN 448,209,000) compared to the same period in 2012. It was the result of increased acquisition of property, plant and equipment compared to 2012, in accordance with implemented development strategy of the Parent.

In the period from 1 January to 30 September 2013 the Group recorded negative cash flow from financing activities in the amount of PLN 34,830,000 (the Parent raised PLN 150,000,000 under the notes issue programme, provided funds amounting to PLN 169,830,000 to the Central Securities Depository of Poland for the payment of dividend from profit for the 2012 financial year, and repaid some of the loans taken).

4.5.5 Debt and financing structure of the LW BOGDANKA Group

Table 20 Debt ratios of the LW BOGDANKA Group

Item	30 September 2013	31 December 2012	Change [%] (2013/2012)
Overall debt ratio	40.75%	34.11%	19.47%
Ratio (debt plus employee liabilities)/(EBITDA annualised)*	1.27	0.96	32.29%
Debt to equity ratio	68.79%	51.77%	32.88%
Fixed capital to non-current assets ratio	92.20%	97.26%	-5.20%
Current debt ratio	22.58%	11.93%	89.27%
Non-current debt ratio	18.17%	22.18%	-18.08%

* (Loans and borrowings + liabilities under issued notes + non-current and current employee benefits / EBITDA annualised (three quarters of 2013 and the fourth quarter of 2012)

4.5.5.1 Overall debt ratio

The overall debt ratio as at 30 September 2013 went up by 19.47% compared to the end of 2012 and reached 40.75% - the share of borrowed capital in the overall sources of financing of the Group increased.

The level of the Group's debts as at 30 September 2013 did not pose any risk to the Group's operation and ability to settle liabilities in a timely manner.

4.5.5.2 Ratio (debt plus employee liabilities)/EBITDA

The ratio showing debt to EBITDA increased at the end of September in the current year by 32.99% and reached 1.27. September 2013 saw an increase of, among others, liabilities under issued notes.

4.5.5.3 Debt to equity ratio

The debt to equity ratio as at 30 September 2013 went up by 32.88% compared to the ratio as at 30 December 2012 and reached 68.79% - the increase in borrowed capital was higher than the change in equity.

4.5.5.4 Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 92.20% (as at 30 September 2013) compared to 97.26% (as at 31 December 2012) – in the analysed period the value of fixed capital (equity plus non-current liabilities less provisions) decreased, with non-current assets going up at the same time.

4.5.6 Liquidity ratios

Table 171 Liquidity ratios

Item	30 September 2013	31 December 2012	Change [%] (2013/2012)

Current liquidity ratio	0.87	1.14	-23.68%
Quick liquidity ratio	0.77	0.99	-22.22%

In the period covered by the consolidated quarterly interim financial statements, the liquidity ratios of the Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities. Bearing in mind the development strategy pursued by the Group, the liquidity ratios are to be considered correct.

4.5.7 Turnover ratios

Table 182 Turnover ratios [days]

Item	30 September 2013	31 December 2012	Change [%] (2013/2012)
Inventory turnover	19.7	13.6	44.85%
Trade debtors collection rate*	66.5	49.3	34.89%
Trade creditors payment rate**	91.0	74.7	21.82%
Operating cycle (1+2)	86.2	62.9	37.04%
Cash conversion cycle (4-3)	-4.8	-11.8	-59.32%

*- Trade and other receivables
** - Trade and other liabilities

4.5.7.1 Inventory turnover

The inventory turnover ratio as at 30 September 2013 went up by ca. 45% compared to the ratio as at 31 December 2012, which is largely the result of increased inventories.

4.5.7.2 Trade receivables collection rate

The trade receivables collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 66.5 days (as at 30 September 2013), as compared to 49.3 days (as at 31 December 2012). The increase in the ratio is attributable, among others, to nominal increase in the average level of other receivables which (because of the way of posting in the accounting books) include the amount provided on the balance sheet date to the Central Securities Depository of Poland towards payment of dividend of PLN 169,830.000.

4.5.7.3 Operating cycle

The operating cycle for current assets (a sum of inventory turnover and trade receivables collection rate) in the analysed period was at 86.2 days, as compared to 62.9 days as at 31 December 2012. The time necessary for disposing of the Group's current assets got longer by over 23 days on the average.

4.5.7.4 Trade creditors payment rate

The trade creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got longer by 16.3 days to 91 days, as compared to the end of 2012. In the analysed period the Group had higher current trade liabilities.

4.5.7.5 Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of –4.8 days was achieved as at 30 September 2013 compared to –11.8 as at 31 December 2012. The negative value of the cash conversion ratio means that the Group uses non-interest-bearing borrowed capital.

4.6 Capital investments in the LW BOGDANKA Group

The value of cash held by the Group as at the end of June 2013 amounted to PLN 270,700,000, out of which the funds of PLN 235,107,000 belonged to the Parent.

The value of cash held by the Parent (PLN 235,107,000) is disclosed:

- PLN 70,190,000 disclosed in non-current assets,
- PLN 164,917,000 disclosed in current assets,

The amount of PLN 70,190,000 covers assets accumulated by the Parent 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).

The mount PLN 164,917,000 includes cash (cash available) held in short-term and medium-term bank deposits (including overnight deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows. According to the adopted Strategy, the Parent maintains liquid cash at a level of average monthly sale proceeds (1/12 of the planned annual revenue).

4.7 Information on financial instruments

The Parent is a party to one forward transaction. Security is created for performance of an agreement worth EUR 47 million for supply and assembly of another ploughing system for low seam mining. The first transaction with a value of EUR 4.3 million was settled on 2 September 2013.

On 27 September, as part of the "Bond Issue Programme of up to PLN 300,000,000" the Parent issued, in two series, 1,500 bonds of a nominal value amounting to PLN 100,000 each – the total value of the completed part of the programme is PLN 150 million. This was announced by the Company in Current Report No. 34/2013.

During the three quarters of 2013 the Group did not use any other financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

The Group is of the opinion that the risk associated with trade receivables 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 continuously analyses inflows and outflows - knows in advance what amounts will be due. Further, the cooperation with banks is very good, which allows the Group to obtain additional debt financing, in accordance with the long-term strategic plan.

4.8 Assessment of the possibilities of investment plans' execution

The structure of financing its property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from own funds and the debt held (a loan and bonds). The Management Board expects an increase in the Group's debt financing. As at the date of providing this Report, the LW BOGDANKA Group sees no threat as to the possibility to acquire additional financing in the form of debt, however it indicates that the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

The current loan together with the issued bods (with a total value of PLN 576,000,000), recorded as at 30 September 2013 in the statement of financial position of the Group, accounted for 24.61% of its equity and approx. 14.58% of the balance-sheet total.

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

In the third quarter of 2013 the LW BOGDANKA Group executed the scope of investment works necessary to double coal extraction in 2015, compared to 2012.

In the third quarter of 2013, due to investment execution the outlays on property, plant and equipment in construction amounted to PLN 412,077,000. These outlays concern the following investment groups:

Table 193 Key material investments of the LW BOGDANKA Group in the 9 months of 2013 and the 9 months of 2012 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2013 to 30 Sep. 2013	Outlays incurred from 1 Jan. 2012 to 30 Sep. 2012
Construction and assembly works	249,875	238,641
Order picking and purchases of finished goods	159,930	139,271
Other	2,019	1,289
Property, plant and equipment in construction	-	4
Total	**412,077**	**379,205**

The main objective of the investment plan for the three quarters of 2013 was to continue commenced tasks, aiming at doubling the extraction capacity through such measures as the expansion of the Mechanical Coal Processing Plant and the expansion of the mining face, including the provision of new equipment.

The plan for the period between Q1 and Q3 2013 included groups of tasks; development-related investments, including purchase of machines and devices, and operating investments, including execution and modernisation of headings in the Bogdanka, Nadrybie and Stefanów Fields, as well as investments in environmental protection, and modernisation and repairs of machines and devices.

Development-related investments were focused on investments in technical infrastructure, i.e. continuation of outward extension of the Mechanical Coal Processing Plant.

As regards purchasing machinery and equipment, the key investment are supplementary deliveries of equipment for the coal-ploughing complex No. 2 to enable mining of 305 m long walls. The deliveries are taking place under a contract to purchase new high-performance coal-ploughing complex No. 3 to mine thin deposits.

Operating investments focused on investments in new workings in the Bogdanka, Nadrybie, and Stefanów fields, continuing the extension of the mine waste storage yard, as well as continuing the modernisation of the switch room and the 110/6 kV station facilities.

Table 204 Selected items of investment outlays at LW BOGDANKA S.A. [PLN '000]

Item	Implementation 3Qs 2013	Updated plan for 2013
DEVELOPMENT CAPEX	**134,037**	**258,000**
Development of the Mechanical Coal Processing Plant	29,484	54,000
Central air-conditioning system of the Bogdanka Field	233	7,000
Integrated production management system	376	3,000
Obtaining new licenses	185	6,000
Other development-related investments, including:	103,758	188,000
purchase of new machines and devices	82,062	*145,000*
purchase of ready goods – devices without assembly	18,411	*36,000*
other	3,285	*7,000*
OPERATING CAPEX	**273,572**	**366,000**
New workings and modernisation of the existing workings	203,136	299,000
Modernization and repairs of machinery and equipment	35,154	18,000
Environmental protection	5,234	10,000
Other operating investments	30,048	39,000
TOTAL CAPEX	**407,609**	**624,000**

Cumulatively, the planned investment expenditure has been completed in approx. 65.32% of the updated expenditure plan for 2013.

6. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

In 2013–2020, the Company plans to achieve, among others, the following strategic objectives:

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

The Company estimates that the above strategy will require an average annual expenditure of approx. PLN 600 million in 2013-2020, including:

- approx. PLN 250 million per annum in development capex to support increased production and productivity;
- approx. PLN 350 million in repeatable opex to maintain the Company's mining levels, upgrade its existing working pits and infrastructure.

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

The Management Board’s recommendation regarding dividend payments may be affected by changes to the assumptions relating to:

- the Company’s development and its plans of further expansion;
- the implementation of the Company's investment plan;
- the Company’s plans to maintain its liquidity at appropriate levels;

and to

- the net profit disclosed in the Company’s separate financial statements;
- the planned investment and other capital expenditure;
- the current possibilities and costs of obtaining debt financing;
- the adoption, by the Company's General Shareholders Meeting, a resolution on a dividend level different from that recommended by the Management Board;
- other factors materially affecting the Company’s financial standing.

7. 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 SET OUT IN THE INTERIM REPORT IN RELATION TO THE FORECAST RESULTS

The LW BOGDANKA Group did not publish financial results’ forecasts for 2013.

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, changes in exchange rates, the level of inflation, the rate of unemployment, and the demand for electricity and heat energy, 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 deterioration of the Group's results is not high. Nevertheless, attention should be brought to the fact that the Group's financial results may deteriorate if current taxes will be raised (such as mining royalty), new taxes imposed, or new fees for hard coal extraction introduced.

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

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

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

Implementation or amendment of the 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 in 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 (Egypt, 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 results. 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 the introduction of the excise tax in relation to coal

The Act on Excise Tax of 6 December 2008 became effective on 2 January 2012. It imposes effective excise tax on the sale of coal products intended for heating purposes. Although the provisions of the said Act and the provisions of executive regulations to this Act introduce a wide range of exemptions, including those covering electricity production, co-production of electricity and heat, and other selected industries and individual coal consumers, they cause an increase in formal requirements with regard to documentation concerning the sales process of coal products exempt from excise tax.

Changes in the provisions regarding excise tax on coal products, which became effective on 20 September 2013, are designed to introduce more order to and simplify the system of documenting trade in coal products exempt from excise tax, which was implemented on 2 January 2012.

Excise tax risk is related to the volatility of tax law, ambiguous interpretation of tax law and the possibility of formal errors which may lead to the excise tax-exempt status regarding selected sale transactions being revoked.

The Group mitigates the risk connected with excise tax by: organising excise tax training courses for the employees, cooperating with reputable tax advisors, requesting tax authorities to issue tax rulings, active participation in the ongoing legislative process, and introducing clauses to commercial agreements which provide for transferring a possible excise tax on a buyer in the event that a given transaction is subject to excise tax.

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 and bonds issued, 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 finance costs 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 finance costs 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 Group’s development strategy. The shareholders’ decisions regarding the distribution of net profit will also affect the possibility of increasing the debt. Currently, the Group does not use any hedging instruments against the risk of fluctuations in interest rates. However, it does not exclude the possibility of using such instruments in the future.

8.1.6 Risk associated with changes in exchange rates

The Parent is a party to one forward transaction. Security is created for the performance of an agreement worth EUR 47 million for supply and assembly of another ploughing system for low seam mining. The first transaction with a value of EUR 4.3 million was settled on 2 September 2013.

The aim of taking measures in order to protect the Company against the risk associated with changes in exchange rates is to guarantee a fixed level of value in Polish zlotys of the future EUR expenses incurred in relation to tasks carried out.

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

At present, LW BOGDANKA sees no threat as to the possibility to obtain 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, it is estimated that the possible costs of its acquisition may be higher than those currently incurred. The Group’s current indebtedness in the amount of PLN 576 million (as at 30 September 2013) accounts for 24.61% of the Group’s equity, and 14.58% 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, among others, events associated with the environment (e.g. industrial and technological malfunctions) and extraordinary events, including 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 hazards occurring in the mine include:

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

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, including the Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group in the future. The Company secures necessary funds to finance the costs related to this sphere of the Company's activity. The scope of mining damage in the case of LW BOGDANKA S.A. 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's operations include:

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

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

The European Commission declares limiting the CO2 emissions by 20% until 2020 in accordance with the so called "Europe 2020 strategy", as well as reducing greenhouse gas emissions by 20%, raising the share of energy consumption produced from renewable sources to 20%, and improving the energy efficiency by 20% in accordance with the so called "20–20-20" targets. Moreover, it suggests introducing a system of auctions for emission permits from 2013. The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, approx. 88% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the LW BOGDANKA Group, and in consequence, may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO2 emissions for particular sectors of the economy are still pending and no binding decisions have been made. Consequently, the level of actual future limitations applicable to CO2 emissions is not known yet. At the same time, in the world (the USA, China, Australia) new technologies – i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO2 emissions.

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

In the opinion of the Company, 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 takes measures aimed at further long-term securing of its provision of coal for commercial power production, relating to existing and prospective power units within the area of its operations.

The Company 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. and Elektrownia Północ Sp. z o.o. for the purposes of future power coal supplies to new power units which, once relevant conditions are met, will guarantee sales of coal at least until 2036. In connection with its aforementioned conditional nature, due to a change in investment priorities of the Energa Group, the agreement as regards future supplies for the newly constructed power unit C was terminated by Elektrownia Ostrołęka S.A. on 30 October 2012. The terminated agreement does not apply to the current supplies to Energa Elektrownie Ostrołęka S.A., which are stable and take place in accordance with the terms of a separate agreement.

The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units and keeping the schedule of investment implementation, therefore there is a risk that one 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, as well as 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 of the above measures, LW BOGDANKA S.A. became a private entity, almost 100% 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 in the process of implementing an investment programme (the Stefanów Field) designed to increase the Company's mining capacity to approx. 11.5 million tonnes of coal annually and, in consequence, to improve the Company's technical, economic and financial results and ratios. The prospects of such a growth, together with the lack of full economic effects prior to the programme completion in 2014, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

The Management Board undertakes actions the aim of which is to increase the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation.

8.2 Risks directly associated with the Group's operations

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

A material aspect of the operations conducted by the Group is the necessity to secure future extraction possibilities by providing access to new coal resources. If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of LW BOGDANKA 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 to obtain prospective resources for the purposes of future exploitation development. Geological documentation and deposit management plan have been developed and measures were taken to obtain a license for exploitation of coal in the new area located to the south and to the east of the current "Puchaczów V" mining area.

Recent years have seen a lot of interest on the part of domestic (Kompania Węglowa S.A.) and as well as foreign business entities in the deposits of the Lublin Coal Basin. Some of them have obtained licenses for exploration and reconnaissance in the vicinity of the mining area of LW BOGDANKA. The said activities may in the future result in these entities submitting applications for exploitation licenses. LW BOGDANKA has an advantage over potential competitors in that is has extensive technical infrastructure necessary to pursue its business activities, as well as unique expertise in exploitation in the mining and geological conditions of the Lublin Coal Basin deposits.

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. Due to the technical and technological mining conditions, the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the LW BOGDANKA mine has a system of underground coal storage reservoirs. Three new reservoirs have recently been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations and conducts intensive research and development 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.

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

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

The technology of power coal extraction applied by LW BOGDANKA S.A. involves the use of highly specialised machines and equipment produced by only several producers in the world, or, in some cases, by only one producer like for example technologically-advanced panel ploughing complexes which allow the Company to achieve high yield in thin seams.

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 implemented 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 S.A. purchased the second longwall ploughing system and in 2013 it concluded an agreement for the third one to be delivered in 2014. In addition to the high costs of purchasing such equipment, there is a risk of difficulties in accessing (costs) unique spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

The Group's need to purchase a mechanical roadheader complex to be used for mining of thin coal deposits entails further risks related to this subject. There are no relevant tested and reliable solutions worldwide, which at the same time would ensure the expected high average capacity at a level of 10,000 tonnes per day. Tender procedure conducted in 2013 brought no results and no contractor was selected. The Company intends to carry out a tender once more.

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 IT environment protection. This refers to the organisation of access to data, making safety copies and their storage, using the Internet traffic filters and firewall security systems, using application and hardware tools for the VPN secure connections, anti-virus systems for the purpose of protection servers and user workstations.

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 its 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 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 for the purposes of future power coal supplies to new power units, as indicated in section 8.1.9.

The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Company might be forced to enter into talks with other coal buyers that will guarantee the sale of coal in the long-term perspective.

There is also a risk that power investments in new capacities will not be completed, 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 mitigates the key customer risk 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.

Information on the material trade agreements signed by the Group in the first half of 2013 and after the balance-sheet date is presented in section 12 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 is assumed in the investment, mining and coal sales plans. This may bring about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring liquidated damages (if any) by the LW BOGDANKA Group. The Company mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

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

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

consolidation processes in the mining, power or industry sectors 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 privatization, consolidation and restructuring processes on the capital market may lead to one of the Company's coal customers significantly strengthening its position in relation to the Company, including in such a way that the customer's group orders larger sales volumes from the Company. There is also a risk of changing the Company's coal into substitute or competing fuels which are more favoured within the customer's group.

This may entail the risk of group purchases, i.e. the Company may increase its dependence on sales to a single customer, or the customer's group may increase its impact on the Company as to how the commercial conditions of cooperation are shaped.

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. The specificity of the parameters of the coal produced by the Company guarantees its advantage with regard to meeting the needs of the commercial power industry. It limits, however, the possibility of generating a higher margin on sales to individual recipients, due to limited possibilities of production of thick coal.

8.2.7 Customer insolvency risk

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 planned investments

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 those tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. LW BOGDANKA exercises due diligence in the actions taken to ensure that the extension of the Mechanical Coal Processing Plant is completed as soon as reasonably possible.

In accordance with the schedule, the whole investment should be completed by the end of 31 August 2014. As a result, full coal beneficiation will be possible starting when the extension of the mine is scheduled for completion. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers.

8.2.8.1 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 BOGDANKA 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 S.A.

In the Group's opinion, cooperation between the Management Board of the Parent, the Management Boards of the Group’s subsidiaries and the trade unions operating within the Group has so far been successful.

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.

8.2.8.2 Risk associated with retaining and attracting human resources for LW BOGDANKA

The demand for human resources of LW BOGDANKA S.A. 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.

Increase in employment up to 2015 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. As per the assumptions made in the development strategy, until the end of June 2014 the Company will have increased slightly the employment level, according to earlier assumptions made in the approved plan. In the subsequent years employment is expected to remain at a stable level, i.e. the recruitment process will focus only on necessary limited employment activities, including filling vacancies.

To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

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

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

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

8.2.9 Risk of the employees of the Company being additionally employed in external entities cooperating with the Group

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

If the provision of work for LW BOGDANKA by the employees of LW BOGDANKA through 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.

8.2.10 Key supplier risk

The specific nature of the Group's operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems 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.

8.2.11 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 main 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 LW BOGDANKA Group 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.

8.3 Financial risks

8.3.1 Liquidity risk

Important factors in the assessment of insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. The Group's liquid cash and cash equivalents as at 30 September 2013 amounted to PLN 200,510,000, the current liquidity ratio amounted to 0.87 and the quick ratio to 0.77. 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. It was assumed that in order to compensate the risks associated with the Company's operating activity, the required level of cash held by the Company as at the end of each year should be equal to the Company's average monthly revenue.

8.3.2 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.

8.4 Risks associated with environmental protection

8.4.1 Risk associated with reclamation and mining damage

LW BOGDANKA is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be 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.

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

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the 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, this year, 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 reduce the risk associated with deficiency of free allowances for CO_2 emissions from EkoKLINKIER installations between the years 2013-2020, the Company retained the allowances saved in the previous reporting period, and additionally purchased around 5,000 EUAs. With the use of the existing trends on the CO_2 emission trading market, it was an almost non-cash transaction which does not adversely affect the Company's finances. Total accumulated EUAs together with EUAs obtained through free allocation are sufficient to secure the needs of the installation in the reporting period 2013-2020.

In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2012 LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the Company's operations in this respect have been adapted to the new regulatory requirements as from 1 May 2012.

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

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

In connection with the extension of the mining area and increased extraction of coal, the amount of generated extraction waste significantly increased (in 2012 at the level of 4.74 million tonnes per year; the forecast for the period after 2012 in connection with a further increase in extraction is that the amount of waste in 2014 will range between 5.2 and 5.7 million tonnes). As at 30 June 2013, approx. 30% of extraction waste is recycled, whereas the remaining part is kept or stored at the waste yard on the mine's premises (the waste is recycled by the mine or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since - according to estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company (on the basis of a building permit) commenced works connected with increasing the height of the existing yard to 250 MASL, and undertook measures aimed at acquiring the adjacent areas in order to further extend the facility (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the mine will be forced to purchase those plots. Applications were submitted requesting that relevant amendments be made to the local spatial development plan. Considerable advancement has been made in this respect. Following social consultations, local community expressed its approval for the investment. Moreover, talks with the plot owners were already held, and preliminary consents for the purchase of plots were obtained. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to other entities for management, other waste yard location) may turn to be less cost effective which may affect the financial results.

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

8.4.4 Investment risks associated with protected areas

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

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

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

8.5 Risks associated with proceedings and legal environment

8.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from 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 Group. 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. 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.

8.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA

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

Fiscal proceedings covering 2004 are currently pending in order to determine the amount of the Company's real property tax liabilities. The proceedings were instigated by the Heads of the communes of Puchaczów and Cyców.

Proceedings covering 2005 are currently pending before the Supreme Administrative Court in Warsaw regarding the calculation of the real property tax by the Head of Ludwin Commune, as a result of the Company’s complaint against the a judgement issued by the Provincial Administrative Court in Lublin. The proceedings should end favourably for the Company given that the tax liability regarding the real property tax for 2005 is time-barred.

Fiscal proceedings covering 2006 are currently pending in order to determine the amount of the real property tax. The proceedings were instigated by the Heads of the communes of Cyców and Ludwin. Administrative proceedings instigated by the Head of the Puchaczów commune in order to determine the amount of property tax for 2006 was finally completed by virtue of a decision of the Local Government Appellate Court in Lublin. The date for filing by the prosecutor of a complaint against the abovementioned decision to the Provincial Administrative Court in Lublin lapsed on 4 August 2013.

Administrative proceedings for 2007, instigated by the Heads of the communes of Ludwin and Cyców were closed with final decisions of the Local Government Appellate Court in Lublin, quashing the decisions of the authorities of first instance and dismissing the proceedings carried out by the authorities of first instance in full; however the period for filing by the prosecutor of complaints against the abovementioned decisions of the Local Government Appellate Court in Lublin with the Provincial Administrative Court in Lublin has not lapsed yet. The dates for filing possible complaints lapse in October 2013. In the case of proceedings conducted by the Head of the Puchaczów commune, the time-limit for the prosecutor to file a complaint against the decision of the Local Government Appellate Court with the Provincial Administrative Court in Lublin has already expired. Nevertheless, in the event possible complaints are filed by the prosecutor, proceedings resulting from those complaints should end favourably for the Company since the tax liability regarding the real property tax for 2007 is time-barred.

Last year, the Head of the Puchaczów Commune has additionally instigated proceedings to determine the amount of property tax for 2011. In the first half of the year, the Heads of the communes: Cyców, Ludwin and Puchaczów started to conduct tax proceedings related to the years 2008-2012. As regards administrative decisions already issued with regard to the period between 2004 and 2007 which specify the amount of property tax, the authorities of first instance determined that property tax also applies to underground workings and the infrastructure located in these workings. Therefore, the Company faces the risk of its position on the scope of assets subject to property tax being questioned by tax authorities and administrative courts. However, as regards the possible negative financial consequences for the Company, it seems that the risk has been reduced significantly as a result of the Polish Constitutional Tribunal's opinion expressed in its judgment of 13 September 2011 in case 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 did not rule out the possibility of charging real property tax on structures and building equipment located in the underground workings, but the Tribunal reserved that real property tax on such structures or equipment could only be imposed if certain conditions were met, i.e.

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

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

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

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

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

The above opinion expressed by the Constitutional Tribunal means that real property tax may be charged on the value of structures and building equipment that meet the conditions specified in the Constitutional Tribunal's judgment described above if, of course, such structures and building equipment are located in the Company's underground workings. It must be emphasised that following the Constitutional Tribunal's judgment, the Company has undertaken measures aimed at determining whether or not the underground workings operated by the Company contain structures and building equipment that meet the criteria, as specified by the Constitutional Tribunal, for such structures and building equipment to be subject to real property tax. Based on a preliminary examination of the types of infrastructure items located in the underground workings and a preliminary evaluation of their value, the Company estimated the amount of a provision as at 30 September 2013. In the case of the above-mentioned proceedings, the time-limit for the prosecutor to file a complaint against the decision of the Local Government Appellate Court with the Provincial Administrative Court has already expired. Therefore, as far as these cases are concerned, the Company is entitled to reimbursement of overpaid amounts.

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

Classification of mining pits in accounting books of hard coal mines is carried out on the basis of the purpose of particular pits. The created pits are recorded in the accounting books as non-current 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 non-current assets. The exploitation and movement pits are classified as operating costs at the time when such costs are incurred - cost pits. They include the following pits:

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

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

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

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

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

8.5.4 Risk of a change in the law and its interpretation and application

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Laws can be changed to companies' advantage, but changes can also have adverse consequences. Changing laws 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, LW BOGDANKA, it could lead to a deterioration of its financial situation and as a result negatively affect Group's results and development prospects.

8.5.5 Risk of violating the stock exchange disclosure requirements

Since the 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 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. of 2009, No. 185, item 1439). For failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the companies' operations from the perspective of disclosure requirements.

8.5.6 Relationships of risks within the Group – summary

The LW BOGDANKA S.A.'s share in the Groups revenue amounts to 99.66% and 98.18% of its net profit (according to data for the third quarter of 2013), therefore it was assumed that the key risks in Group's activities are in fact the key risk of the Parent. The only risk at the Group's level which could influence its 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 third quarter of 2013, neither LW BOGDANKA S.A., nor its Subsidiaries were parties to proceedings pending before court, arbitration body or administrative body, regarding:

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

10. RELATED PARTY TRANSACTIONS

In the third quarter of 2013, the Parent and its Subsidiaries did not conclude any significant transactions with associated entities which were individually or jointly significant and were concluded on terms other than on an arm's length basis. Information on transaction of LW BOGDANKA S.A. with related entities is presented in section

10 of the Condensed Quarterly Consolidated Financial Statements of the LW BOGDANKA Group for the third quarter of 2013 ended on 30 September 2013.

11. INFORMATION ON THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES

In the period from 1 January 2013 to 30 September 2013, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiaries granted sureties for a credit facility or loan or did they 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 equity.

12. OTHER INFORMATION WHICH, IN THE OPINION OF THE COMPANY'S 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

12.1 Amendments to the Articles of Association of LW BOGDANKA S.A.

On 4 July 2013, the Annual General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A. adopted Resolutions Nos. 27-31 concerning amendments to the Company's Articles of Association.

The existing provisions of the Articles of Association of LW BOGDANKA S.A. and the amendments introduced were presented in Current Report No. 27/2013 of 5 July 2013.

12.2 Adopting a resolution on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase of the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in the years 2013-2017.

On 4 July 2013, the Annual General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A. adopted resolution No. 26 on the issue of up to 1,360,545 (one million three hundred and sixty thousand five hundred and forty-five) registered series A subscription warrants ("Warrants") with the exclusion of the pre-emptive right, a conditional increase in the Company's share capital by not more than PLN 6,802,700 (six million eight hundred and two thousand seven hundred zlotys) by issuing not more than 1,360,540 (one million three hundred and sixty thousand five hundred and forty) ordinary bearer series D shares with the nominal value of PLN 5.00 (five zlotys) each ("Series D Shares") with the exclusion of the pre-emptive right. Each Warrant will carry the right to acquire one Series D Share. The Warrants will be offered to the members of the Company's Management Board and to senior management members of key importance for the Company's development, i.e. to employees of the Company and of its subsidiaries as named in a list prepared by the Management Board and approved by the Supervisory Board ("Eligible Persons"), accounting for less than 150 people, as a result of the exercise of options granted by the Company's Supervisory Board ("Options") as part of the Management Options Scheme in place at the Company in 2013-2018 ("Scheme"). The Warrants are to be issued free of charge, which is justified by the nature of the issue.

The issue of Series D Shares, in accordance with the assumptions of the Scheme, will be equal to their nominal value, i.e. PLN 5.00 (five zlotys) per share. The right to acquire Warrants free of charge and the right to acquire Series D Shares at their issue price equal to their nominal value will act as an incentive for the Eligible Persons. This, in turn, will allow for aligning the personal interests of the Eligible Persons with the interests of the Company and, therefore, contribute to increasing the effectiveness of the Eligible Persons' measures aimed at improving the Company's financial results.

The Programme was announced by the Company in Current Report No. 18/2013 of 29 May 2013 and in Current Report No. 27/2013 of 5 July 2013.

12.3 Concluding an agreement regarding a bond issue programme and acquisition of two bond series by a bank

On 23 September 2013 Lubelski Węgiel Bogdanka S.A. concluded an agreement with regard to bond issue programme ("Agreement") with POLSKA KASA OPIEKI SPÓŁKA AKCYJNA ("Bank").

Under the Agreement, the Company intends to establish a bond issue programme ("Programme") which provides for bond issue by the Company in many series, on terms provided for in the Agreement, up to the amount of PLN 300,000,000, which is the maximum allowed total amount of issued and not redeemed bonds. The aim for bond issue is obtaining funds for financing current Company operations and satisfying its investment needs.

The Bank intends to assume the obligation to acquire the bonds issued under the Program and to act during the issue as the guarantor, the depositary, the issue agent, the paying agent and the documentation agent.

The term of the Programme begins on the day of signing the Agreement and ends on 31 December 2018. Under the Programme, the Company will be entitled to issue bonds with maturities from 3 to 5 years, indicated in the terms of the bonds. The nominal value of each bond series will be no lower than PLN 25,000,000.

The interest rate of both series is based on WIBOR 3M, increased by a fixed margin. Offers of the Bank's acquisition of the Bonds issued in series will be proposed in accordance with the Programme.

The Company established security for the benefit of the Bank in the form of: claim assignment agreement regarding an agreement with one of the Company's customers, a declaration of submission to enforcement pursuant to Article 777.1.5 of the Polish Code of Civil Procedure and a power of attorney to an indicated bank account of the Company.

The Company published this information in Current Report No. 33/2013 of 23 April 2013.

On 27 September 2013, Bank POLSKA KASA OPIEKI SPÓŁKA AKCYJNA acquired two series of bonds issued pursuant a resolution of the Company's Management Board of 26 September 2013 under a Bond Issue Programme, established pursuant to an agreement with the Bank.

In pursuance of the Programme, the Bank acquired 750 series BOGD01 300618 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each, and 750 series BOGD02 300318 bonds, with a nominal value of PLN 100,000 (one hundred thousand zlotys) each. The aggregate amount of both bond series acquired by the Bank is PLN 150,000,000. Redemption date for the series BOGD01 300618 bonds is scheduled for 30 June 2018, and the redemption date for the series BOGD02 300318 bonds is scheduled for 30 March 2018.

The Company published this information in Current Report No. 34/2013 of 27 April 2013.

12.4 Adoption of Terms and Conditions of the Management Options Scheme in 2013-2017 and allocation of options

By virtue of a Resolution of 30 September 2013 the Supervisory Board adopted the Terms and Conditions of the Management Options Scheme in 2013-2017 ("Scheme"). The Resolution was adopted under Resolution No. 26 of the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A. of 4 July 2013 on the issue of series A subscription warrants with the exclusion of a pre-emptive right, conditional increase in the Company's share capital with the exclusion of a pre-emptive right, consent to carry out the Management Options Scheme in 2013-2017, which was announced by the Company in Current Report No. 27/2013 of 5 July 2013.

By virtue of the Resolution of 30 September 2013 and as part of the Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672 Options, and each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management members of key importance for the Company's development.

Options confer the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, confer the right to acquire series D shares.

The base price equals an average of the Company share listings (calculated on the basis of closing prices) for a period of 3 months preceding a day of adopting a resolution by the Company's General Shareholders Meeting, i.e. 4 July 2013 and amounts to PLN 117,75.

In each subsequent calendar day the base price is indexed by 0.35%, and the first indexation date is 1 August 2013 followed by indexation dates falling on the first day of each subsequent month.

The Option strike price equals a base price less dividend cumulated by the date of Option exercise, paid out by the Company, calculated per one share, beginning from a dividend for 2012.

The Company published this information in Current Report No. 35/2013 of 30 September 2013.

12.5 Conclusion of significant agreements

12.5.1 Concluding an Annex to the Significant Agreement with PGNIG Termika S.A.

On 5 July 2013, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka concluded an Annex to the Agreement on Sale/Purchase of Power Coal ("Agreement") with PGNIG Termika S.A. with registered office in Warsaw. The Agreement concerns coal supplies provided by the Company between 2013 and 2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A. The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013 and 14/2013 of 28 May 2013.

The Annex covers terms and conditions of supplies in 2014. Therefore, the condition subsequent referred to in Current Report No. 14/2013 does not apply.

As a result of concluding the Annex, the value of the entire Agreement currently amounts to PLN 973.42 million.

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 equity.

The above was announced by the Company in Current Report No. 28/2013 of 5 July 2013.

12.5.2 Conclusion of an annex to the significant agreement with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group

On 30 August 2013 the Management Board of LW Bogdanka S.A. with registered office in Bogdanka concluded an Annex to Agreement No. 3/W/2012 on the sale of power coal ("Agreement") with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group with registered office in Połaniec. The Agreement was the subject of Current Report No. 41/2012 of 12 July 2012.

The Agreement provides for actual supplies of power coal for the purposes of Elektrownia Połaniec in 2013-2018.

As a result of concluding the Annex, the deadline for setting the price of supplies for 2016 has been extended from 31 August 2013 to 31 October 2013 and the condition subsequent connected therewith, reported in current report No. 41/2012, has also been amended and reads as follows:

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

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 equity.

This was announced by the Company in Current Report No. 31/2013 of 30 August 2013.

12.5.3 Conclusion of an annex to the significant agreement with EDF Paliwa Sp. z o.o.

On 31 October 2013 the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka concluded an annex to the Long-Term Agreement on the sale of power coal ("Agreement") of 19 July 2011 with EDF Paliwa Sp. z o.o., with registered office in Kraków. The Agreement was described in Current Report No. 21/2011 of 19 July 2011 and in Current Report No. 42/2012 of 1 August 2012.

As a result of concluding the Annex, the parties:

a) determined the terms of coal supplies for 2014 (volume and price),

b) changed rules governing the sales of coal products between coal intermediation entities, after the amendments to the Excise Tax Act of 6 December 2008 as well as secondary legislation thereto.

Additionally, the Company's Management Board hereby announces that due to the execution of the provisions of the Agreement, the term thereof has been extended for the next calendar year and the Agreement is in effect until 31 December 2016.

According to the Annex, the net value of the entire Agreement, excluding any additional options, possible increases, deviations and tolerance, amounts to PLN 681 million net, at current prices.

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

The criterion for deeming the concluded Agreement to which the Annex has been concluded, to be significant, is that it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 37/2013 of 31 October 2013.

12.5.4 Conclusion of an annex to the significant agreement with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group

On 31 October 2013 the Management Board of LW Bogdanka S.A. with registered office in Bogdanka concluded an Annex to Agreement No. 3/W/2012 on the sale of power coal ("Agreement") with Elektrownia Połaniec S.A. - GDF SUEZ ENERGIA POLSKA Group with registered office in Połaniec. The Agreement was the subject of Current Reports No. 41/2012 of 12 July 2012 and No. 31/2013 of 30 August 2013.

The Agreement provides for actual supplies of power coal for the purposes of Elektrownia Połaniec in 2013-2018.

As a result of concluding the Annex, the deadline for setting the price of supplies for 2016 has been extended from 31 October 2013 to 30 November 2013 and the condition subsequent connected therewith has also been amended and reads as follows:

If: until 30 November 2013 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2016, or until 31 August 2014 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2017, or until 31 August 2015 the Parties fail to conclude an annex to the Agreement setting the price for coal supplies for 2018, the Agreement is terminated with effect at the end of a period for which the Parties have set the price in accordance with the Agreement.

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 which the Annex has been concluded, to be significant, is that it exceeds 10% of the value of the Company equity.

This was announced by the Company in Current Report No. 38/2013 of 31 October 2013.

13. Employment

Employment at the Company as at 30 September 2012 and 2013 and as at 30 June 2013 is presented in the table below:

Table 215 Employment at the Company as at 30 September 2012, 30 September 2013, and 30 June 2013

Employment	30 Sep. 2012	30 Jun. 2013	30 Sep. 2013	Dynamics Q3 2013/ Q3 2012 [%]	Dynamics Q3 2013/ Q2 2013 [%]
Total workers	3,959	3,861	4,062	102.60	105.21
Underground workers	3,004	2,919	3,127	104.09	107.13
Surface workers	955	942	935	97.90	99.26
Full-time employees underground	327	341	345	105.50	101.17
Full-time employees on the surface	287	295	296	103.14	100.34
Total underground	3,331	3,260	3,472	104.23	106.50
Total staff	4,573	4,497	4,703	102.84	104.58

Employment in the third quarter of 2013 decreased by 130 persons, i.e. by 2.84% in relation to the employment at the end of the third quarter of 2012.
Employment in the third quarter of 2013 increased by 206 persons, i.e. by 4.58% in relation to the employment level at the end of the first half of 2013.

During the three quarters of 2013, 318 persons were employed at LW BOGDANKA S.A., including 15 graduates of secondary and post-secondary schools and 14 university graduates.

At the same time, 202 employees left the Company during the three quarters of 2013:

- 161 persons retired (pensions or disability pensions);
- 41 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 half of 2013, is 0.02, which shows that more people are employed than dismissed. In the third quarter, the Company slightly increased the employment level, in accordance with the approved employment plan, with an aim of achieving an optimum level of employment necessary for a conduct works safely and in accordance with mandatory regulations of mining and geological law.

14. LIST OF TABLES

Signatures of the Members of the Board

Name and surname	**Function**	**Date**	**Signature**
Zbigniew Stopa	President of the Management Board	5 Nov. 2013	
Roger de Bazelaire	Vice–President of the Management Board, Economic and Financial Affairs	5 Nov. 2013	
Waldemar Bernaciak	Vice-President of the Board, Trade and Logistics	5 Nov. 2013	
Krzysztof Szlaga	Member of the Management Board, Procurement and Investments	5 Nov. 2013	

Bogdanka, 5 November 2013