DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the First Quarter of 2014

ended on 31 March 2014

BOGDANKA, MAY 2014

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 8 May 2014, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group" or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Wegiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent") ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka") EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS"), RG Bogdanka Sp. z o.o. (hereinafter referred to as "RG Bogdanka"), and MR Bogdanka Sp. z o.o. (hereinafter referred to as "MR Bogdanka") as the Subsidiaries.

As at the date of submitting this Report, i.e. 8 May 2014, LW BOGDANKA S.A. also held 22.41% of shares in Kolejowe Zakłady Maszyn KOLZAM S.A., a 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 covered by the 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 first quarter of 2014 (hereinafter referred to as the Condensed Quarterly Consolidated Financial Statements) by full consolidation method.

1.2.1 Information about the Parent of the Lubelski Węgiel BOGDANKA Group as at the date of submitting the quarterly report

The Parent of the LW BOGDANKA Group:

Lubelski Węgiel BOGDANKA Spółka Akcyjna

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.:	+ 48 81 462 51 00 + 48 81 462 51 01
Fax:	+ 48 81 462 51 91
Website:	www.lw.com.pl
E-mail:	bogdanka@lw.com.pl
Industry Identification Number (REGON):	430309210
Tax Reg. No. (NIP):	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) finance and insurance (Section K);

l) real estate activities (Section L);

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

n) administration and support activities (Section N);

o) education (Section P).

Supplementary activities

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Construction Ceramics Plant.

1.2.2 Information about Subsidiaries

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. (NIP):	713-020-71-92

The share capital of Łęczyńska Energetyka stands at PLN 82,677,000 divided into 82,677 shares of PLN 1,000 per share.

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.

Services provided by Łęczyńska Energetyka Sp. z o.o. to the mine consist in supplying heat energy and managing water and wastewater.

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. (NIP):	505-012-39-60

The share capital of EkoTrans Bogdanka stands at PLN 100,000 and is divided into 100 shares of PLN 1,000 per share.

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

EkoTRANS provides services to the mine with respect to management 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. (NIP):	627-273-54-05

The share capital of RB Bogdanka Sp. z o.o. stands at PLN 500,000 and is divided into 10,000 shares of PLN 50 per share.

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

The business activities of RG Bogdanka are: provision of services deliveries and construction works to LW BOGDANKA S.A.

D) MR Bogdanka Sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów
Tel.:	+48 81 462 53 34
Fax:	+48 81 462 51 30
Website:	-
E-mail:	biuro@mrbogdanka.pl
Industry Identification Number (REGON):	061626723
Tax Reg. No. (NIP):	505-012-41-90

The share capital of MR Bogdanka Sp. z o.o. stands at PLN 1,000,000 and is divided into 20,000 shares of PLN 50 per share.

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

The business activities of MR Bogdanka Sp. z o.o. are: repairs, regeneration and production of steel structures.

1.3 Changes in the structure of the Lubelski Węgiel BOGDANKA Group and in the organisational and capital associations of the Parent with other entities, and consequences of changes in the structure of the LW BOGDANKA Group, including those resulting from merger of business entities, takeover or sale of entities of the LW BOGDANKA Group, long-term investments as well as division, restructuring and discontinuation of activities

In the first quarter of 2014, there were no changes in the structure of the LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In the period in question, there was no change either in the structure of the LW BOGDANKA Group that would result from merger of business entities, takeover or sale of the Group's entities, long-term investments or division, restructuring or discontinuation of activities.

On 17 April 2014, the Company acquired a 100% stake in MR Bogdanka Sp. z o.o. with the total par value of PLN 5,000. On 18 April 2014 under a resolution adopted by the Extraordinary Shareholders Meeting of MR Bogdanka the share capital was increased to PLN 1,000,000 by creating 19,900 new shares with a par value of PLN 50 per share all of which were taken up by LW Bogdanka S.A.

2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE FIRST QUARTER OF 2014

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

Table 1 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous periodical report, i.e. 20 March 2014 and 8 May 2014

Shareholder	20 March 2014		8 May 2014	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)	Number of shares/ Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,060,091	14.88	5,060,091	14.88
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	20,622,975	60.63	20,622,975	60.63
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the notification received on 7 January 2014 described in Current Report No. 1/2014.

** According to the notification received on 18 March 2010 described in Current Report No. 10/2010.

*** According to the notification received on 11 August 2010 described in Current Report No. 35/2010.

*** According to the notification received on 12 May 2010 described in Current Report No. 17/2010.

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

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

	Number of shares as at the date of submitting the Report for 2013 (20 March 2014)	**Number of shares as at the date of submitting the Report for the first quarter of 2014 (8 May 2014)**
Management Board		
Zbigniew Stopa	5,703	5,703
Roger de Bazelaire	0	0
Waldemar Bernaciak	2,162	2,162
Krzysztof Szlaga	0	0
Supervisory Board		
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
Michał Stopyra	0	0

By virtue of the Resolution of 30 September 2013 and 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, 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 officers 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 carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

On 24 April 2014, having assessed the financial statements for 2013, the Supervisory Board concluded that the the criteria for exercising the Options by persons covered by the Management Options Scheme have been fulfilled.

Details about the Management Options Scheme are contained in the Terms and Conditions of the Management Options Scheme of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka for 2013-2017, attached as Appendix to Current Report No. 35/2013 of 30 September 2013.

3. ANALYSIS OF AND INFORMATION ON THE BASIC ECONOMIC AND FINANCIAL VALUES DISCLOSED IN THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST QUARTER OF 2014, I.E. FROM 1 JANUARY 2014 TO 31 MARCH 2014

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

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

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

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

3.2 Production, sale and inventories of coal

In the first quarter of 2014, the production of commercial coal in the Parent increased by more than 10% in relation to the same period of 2013 and totalled 2,238,210 tonnes, compared to 2,031,760 tonnes in the previous year.

Table 3 Commercial coal production by LW BOGDANKA S.A. for Q1 2014 and 2013 ['000 tonnes]

Q1 2014	Q1 2013	Change Q1 2014 / Q1 2013
2,238.21	2,031.76	10.16%

Table 4 Strucure of commercial coal production by LW BOGDANKA S.A. for Q1 2014 and 2013

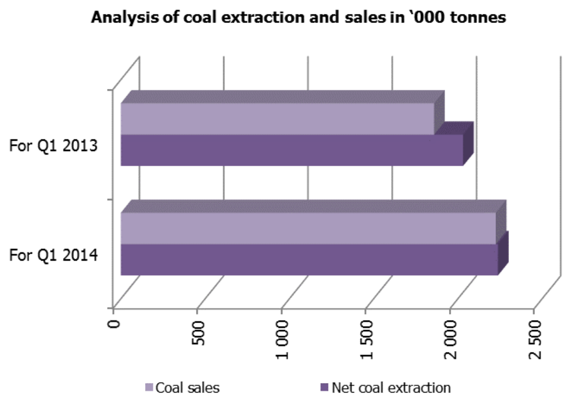
Structure of sales	Q1 2014	Q1 2013	Change 2014-2013	Change % 2014/2013
Fine coal	98.89%	98.66%	0.23 p.p.	0.23%
Nut coal	0.24%	0.33%	-0.09 p.p.	-27.27%
Pea coal	0.87%	1.01%	-0.14 p.p.	-13.86%
Total	**100.00%**	**100.00%**	**-**	**-**

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production accounted for nearly 99%).

In the first quarter of 2014 the sales of coal grew by nearly 20% compared to the first quarter of 2013.

Table 5 Commercial coal sales by LW BOGDANKA S.A. for Q1 2014 and 2013 ['000 tonnes]

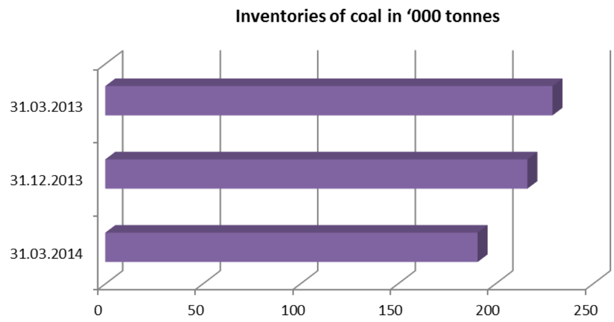
Q1 2014	Q1 2013	Change Q1 2014 / Q1 2013
2,225.34	1,859.16	19.70%



At the end of the first quarter of 2014, the level of coal inventories was 229,300 tonnes, which means an increase by 12,860 tonnes, i.e. by 5.94% compared to the level as at 31 December 2013; at the same time, it was higher by 38,390 tonnes than as at 31 March 2013. The level of coal inventories presented at the end of the first quarter of 2014 corresponds to ca. eight days of commercial coal production by the Parent.

Table 6 Inventories of coal after Q1 2014 and 2013 and as at 31 December 2013 ['000 tonnes]

Item	31 Mar. 2014	31 Dec. 2013	31 Mar. 2013	Change [%] (31 Mar. 2014 / 31 Dec. 2013)	Change [%] (31 Mar. 2014 / 31 Dec. 2013)
Inventories of coal	229.30	216.44	190.91	5.94%	20.11%



3.2.1 **Revenue and key customers**

In the first quarter of 2014, the LW BOGDANKA Group generated revenue of PLN 481,540,000, which means an increase by nearly 12% compared to the first quarter of 2013.

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 nearly 95% of the Group's revenue. In the first quarter of 2014, the Group noted an increase in revenue from coal sales by over 11% compared to the first quarter of 2013.

In the condensed consolidated financial statements published by the Group, for presentation purposes, data in the income statement concerning revenue from coal sales and costs of products, goods and materials sold is adjusted (downwards) by the value of coal sold that was obtained during drilling of excavations. Bearing in mind the above, the value indicated in the condensed consolidated income statement for the period from 1 January to 31 March 2014 was adjusted by PLN 29,075,760, while in the same period of the previous year – by PLN 25,312,090.

More than 90% of coal sales transactions (in terms of value) in the period from 1 January to 31 March 2014 were concluded on the basis of long–term trade agreements between LW BOGDANKA S.A. and Elektrownia Kozienice S.A., GDF Suez Energia S.A., PGNiG Termika S.A., Elektrownia Ostrołęka S.A. and Zakłady Azotowe Puławy S.A.

Table 7 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q1 2014 and 2013 (in PLN '000)

Item	Q1 2014	Q1 2013	Change [%] (2014/2013)
Sales of coal	456,944	410,624	11.28%
Sales of ceramics	1,493	336	344.35%
Other activities	20,565	17,111	20.19%
Sales of goods and materials	2,538	2,687	-5.55%
Total revenue	**481,540**	**430,758**	**11.79%**

The revenue from other activities (which includes the revenue generated by subsidiaries) in the first quarter of 2014 amounted to PLN 20,565,000, compared to PLN 17,111,000 in the same period of 2013 (+20.19%).

In the first quarter of 2014, the revenue from other activities accounted for 4.27% of the total revenue, compared to 3.97% a year before. A significant share in that group of revenue was held by:

- revenue from services of coal transport provided by the LW BOGDANKA S.A. for the benefit of some customers (this item has contributed primarily to the increased revenue in that group),
- revenue of subsidiaries,
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the first quarter of 2014 dropped from 0.62% to 0.53% compared to the first quarter of 2013. In the analysed period of 2014 and 2013, the dominant position in the amount was revenue from the sales of scrap (recorded by the Parent).

Table 8 Geographical structure of revenue of the LW BOGDANKA Group in Q1 2014 and 2013 (in PLN '000)

Item	Q1 2014	% share	Q1 2013	% share
Domestic sales	481,463	99.98%	430,720	99.99%
Foreign sales	77	0.02%	38	0.01%
Total revenue	**481,540**	**100.00%**	**430,758**	**100.00%**

3.3 Costs of LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, in accordance with the formula presented, reflect the use of a given production means or resources (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 with its own funds (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation costs of the period in question.

3.3.1 **Costs by type**

In the first quarter of 2014, costs by type incurred by LW BOGDANKA S.A. amounted to PLN 485,373,000, which means that they were higher by 6.57% than in the first quarter of 2013. The increase in costs in the first quarter of 2014 was largely the result of recorded increase in costs of external services, employee benefits (remunerations together with mandatory contributions and other benefits in favour of the employees) and depreciation and amortisation.

The value of external services in the first quarter of 2014 compared to the first quarter of 2013 went up from PLN 105,476,000 to PLN 117,183,000 (+11.10%).

In the analysed period, the value of drilling and mining services (in connection with drilling and reconstructing excavations) remained at a similar level compared to the same period of the previous year, while an increase was noted in the value of transport of stone (for a part of the first quarter of 2013 the stone was not transported but piled on the yard near the mine) and the costs of railway transport services (higher sales of coal for the transport of which to the customer LW BOGDANKA S.A. was responsible). It must be noted that the above railway transport costs are subsequently reinvoiced to the ultimate coal recipient (neutral impact on EBIT).

The value of employee benefits went up by PLN 10,606,000 – the change results from the increased value of remunerations and mandatory contributions on remunerations (the average employment went up); in addition, a portion of the option scheme value attributable to the first quarter of 2014 was recognised under costs.

The value of depreciation and amortisation went up by 7.01% (to PLN 87,717,000) – the value of depreciation of non-current assets went up (in line with the Strategy implemented).

The value of taxes, fees and charges paid went up in the first quarter of 2014 to PLN 9,820,000 from PLN 8,945,000 in the first quarter of 2013 – the mining fee and real property tax was higher.

The value of other costs increased from PLN 11,348,000 (Q1 2013) to 13,291,00 (Q1 2014), largely because of a higher property insurance premium.

The total value of materials and energy consumption decreased by 0.66% compared to the first quarter of 2013 and amounted to PLN 123,481,000. In the analysed period the value of energy (understood as the sum total of electricity, heat and water energy, and other media) went down, with the value of consumed materials going up at the same time – it was caused by a larger extent of performed preparatory works (in the first quarter of 2014 the Company completed 9,317 metres galleries compared to 6,841 in the previous year, which means a quarter-to-quarter increase of 36%).

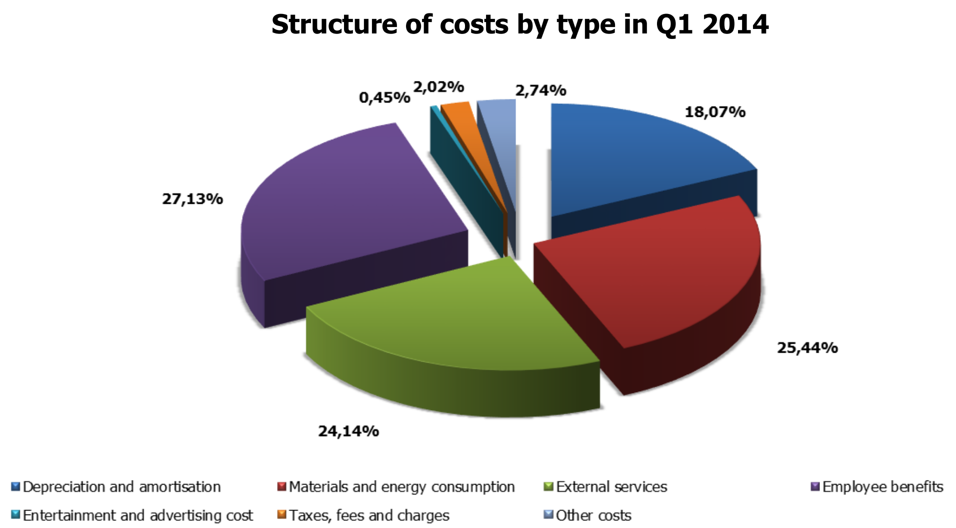
The result of an adjustment of costs by type by change in products and accruals and deferrals, the value of own work and the costs of goods and materials sold, will give own cost of sales for the first quarter of 2014 amounting to PLN 400,685,000. As compared to the same period of the previous year, it is higher by 17.48% (with a year-to-year increase by 19.70% in the amount of coal sold).

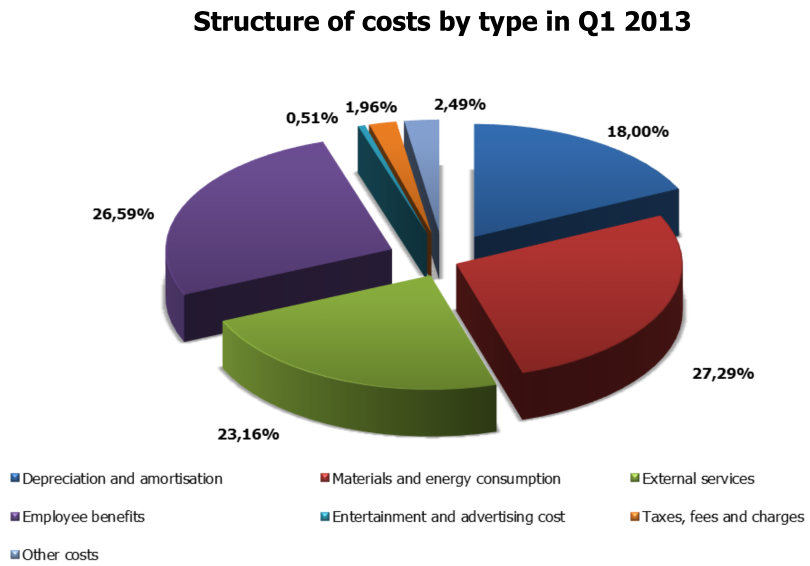
Table 1 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	Q1 2014	Q1 2013	Change 2014/ 2013
Amortisation/depreciation	87,717	81,970	7.01%
Materials and energy consumption	123,481	124,304	-0.66%
External services	117,183	105,476	11.10%

Employee benefits	131,695	121,089	8.76%
Entertainment and advertising costs	2,186	2,334	-6.34%
Taxes, fees and charges	9,820	8,945	9.78%
Other costs	13,291	11,348	17.12%
Costs by type	**485,373**	**455,466**	**6.57%**
Cost of own work	-66,440	-66,904	-0.69%
Deferrals and accruals	-4,351	3,013	-244.41%
Provisions and other IAS presentation adjustments	-15,765	-22,418	-29.68%
Total production cost	**398,817**	**369,157**	**8.03%**
Change in products	-630	-30,768	-97.95%
Value of goods and materials sold	2,498	2,673	-6.55%
Own cost of production sold, including	**400,685**	**341,062**	**17.48%**
Costs of products, goods and materials sold	367,467	309,274	18.82%
Selling cost	9,884	10,171	-2.82%
Administrative costs	23,334	21,617	7.94%

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the first quarter of 2014 (compared to the same period of the previous year) the share of employee benefits costs went up to 27.13%, the share of depreciation and amortisation costs went up to 24.14%, while the share of materials and energy consumption costs in the total costs went down. The sum total of employee benefits, external services and materials consumption generated in both compared periods ca. 77% of the Company's total costs.





3.3.2 Costs by function

In the first quarter of 2014, the own cost of sales (by function) amounted to PLN 400,685,000 and was higher by 17.48% than the cost in the first quarter of 2013. An increase in the own cost of sales between the first quarter of 2014 and the first quarter of 2013 is caused by higher costs by type incurred and stable inventories of coal during the first quarter of 2014 (in the first quarter of 2013 there was a dynamic increase in inventories of coal, which translated into a lower own cost of sales – lower cost base).

Table 2 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	Q1 2014	Q1 2013 restated	Change Q1 2014/ Q1 2013
Costs of products, goods and materials sold	367,467	309,274	18.82%
Selling costs	9,884	10,171	-2.82%
Administrative costs	23,334	21,617	7.94%
Own cost of sales	**400,685**	**341,062**	**17.48%**

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

Table 3 Structure of costs by function at LW BOGDANKA S.A.

Item	Q1 2014	Q1 2013 restated	Change Q1 2014/ Q1 2013
Costs of products, goods and materials sold	91.71%	90.68%	1.14%
Selling costs	2.47%	2.98%	-17.11%
Administrative costs	5.82%	6.34%	-8.20%
Own cost of sales	**100.00%**	**100.00%**	**0.00%**

3.4 Provisions at the LW BOGDANKA Group

Table 4 Balance-sheet provisions in the LW BOGDANKA Group at the end of Q1 2014 and Q1 2013 [PLN '000]

Item	As at 31 Mar. 2014	As at 31 Dec. 2013	Change 2014/2013 [%]	Change in provisions in Q1 2014
Employee provisions	207,614	200,030	3.79%	7,584
Real property tax liabilities-excavations	30,186	27,846	8.40%	2,340
Provision for mine closure costs	94,417	85,278	10.72%	9,139
Mining damage	12,605	12,933	-2.54%	-328
Other	24,721	24,058	2.76%	663
TOTAL	**369,543**	**350,145**	**5.54%**	**19,398**

Total provisions as at 31 March 2014 amounted to PLN 369,543,000, which means an increase by 5.54% compared to the value as at the end of the previous financial year. Employee provisions increased by 3.79% on a year-to-year basis and amounted to PLN 207,614,000 as at 31 March 2014.

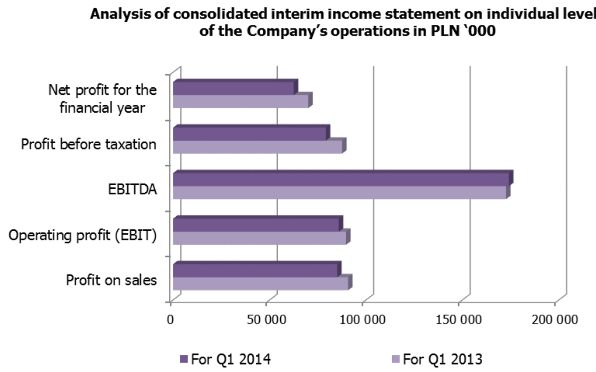
An increase in the balance of provisions in the first quarter of 2014 amounted to PLN 19,398,000. The provision for mine closure costs increased in the first quarter of 2014 by PLN 9,139,000, while the employee provisions increased by PLN 7,584,000.

3.5 Selected financial data

3.5.1 Group's revenue, costs, profit and loss

Table 5 Analysis of the consolidated income statement [PLN '000]

Item	Q1 2014	Q1 2013 restated	Change [%] 2014/2013
Revenue	481,540	430,758	11.79%
Costs of products, goods and materials sold, selling and administrative costs	396,435	339,973	16.61%
Profit on sales	**85,105**	**90,785**	**-6.26%**
Profit on sales margin (Gross margin)	*17.67%*	*21.08%*	*-16.18%*
Other income	78	2,427	-96.79%
Other costs	471	356	32.30%
Net operating profit/loss	**84,712**	**92,856**	**-8.77%**
Other net profits/losses	1,246	-3,142	-139.66%
Operating profit (EBIT)	**85,958**	**89,714**	**-4.19%**
EBIT margin	*17.85%*	*20.83%*	*-14.31%*
EBITDA	**174,149**	**172,612**	**0.89%**
EBITDA margin	*36.17%*	*40.07%*	*-9.73%*
Finance income	2,351	1,268	85.41%
Finance costs	9,095	3,344	171.98%
Profit before taxation	**79,214**	**87,638**	**-9.61%**
Pre-tax profit margin	16.45%	20.35%	-19.16%
Income tax	16,614	17,543	-5.30%
Net profit for the financial year	**62,600**	**70,095**	**-10.69%**
Net profit margin	*13.00%*	*16.27%*	*-20.10%*
- attributable to Company shareholders	62,381	69,863	-10.71%



3.5.1.1 Revenue

The value of revenue for the first quarter of 2014 increased by almost 12% compared to the same period of the previous year and amounted to PLN 481,540,000.

3.5.1.2 Costs of products, goods and materials sold, selling costs, administrative costs

In the first quarter of 2014, the costs of products, goods and material sold plus selling and administrative costs went up by 16.61% compared by the same period of the previous year and amounted to PLN 396,435,000.

3.5.1.3 Profit on sales

The profit on sales in the first quarter of 2014 went down by 6.26% compared to the first quarter of 2013 and amounted to PLN 85,105,000. Profit on sales margin (gross margin) in the analysed period of 2014 was 17.67% compared to 21.08% in the same period of the previous year.

3.5.1.4 Other income

In the first quarter of 2014, other income amounted to PLN 78,000 compared to PLN 2,427,000 a year before. The dominant item in the value for the first quarter of 2014 is income from received damages and released impairment losses.

3.5.1.5 Other costs and other net profits/losses

In the first quarter of 2014, other profits/losses amounted to PLN +1,246,000, while in the first quarter of 2013 they equalled PLN -3,142,000, which means a change of PLN 4,388,000. This change relates largely to the result on income and expenses in connection with changes in tangible non-current assets, foreign exchange differences and provision for mining damage.

3.5.1.6 EBIT

The operating profit (EBIT) in the first quarter of 2014 amounted to PLN 85,958,000 and was lower by 4.19% compared to the first quarter of 2013. EBIT margin in the first quarter of 2014 was 17.85%, i.e. it was lower by 2.98 p.p. than in the first quarter of the previous year.

3.5.1.7 EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the first quarter of 2014 went up by 0.89% compared to the first quarter of 2013 and amounted to PLN 174,149,000. Depreciation and amortisation in the first quarter of 2014 amounted to PLN 88,191,000 compared to 82,898,000 in the same period of 2013.

EBITDA margin the first quarter of 2014 was 36.17% and was lower than in the same analysed period of 2013 (40.70%).

3.5.1.8 Finance income

The finance income in the first quarter of 2014 amounted to PLN 2,351,000, which means an increase of ca. 85% compared to the same period of the previous year. Increased income has been caused by higher levels of cash available averagely during the year within the Group.

3.5.1.9 Finance costs

The finance costs for the three months of 2014 amounted to PLN 9,095,000 compared to PLN 3,334,000 in 2013 (increase by 171.98%). The total indebtedness of the Group amounted to PLN 571,000,000 as at 31 March 2014 compared to PLN 436,000,000 as at 31 March 2013. The increase in the first quarter of 2014 is caused by higher interest expenses on the indebtedness and additionally by accounting for a discount on long-term provisions (FLK).

3.5.1.10 Profit before taxation

In the first quarter of 2014, the Group generated pre-tax profit which was higher by 9.61% than in the first quarter of 2013. Pre-tax profit for the period from 1 January to 31 March 2014 amounted to PLN 79,214,000 compared to PLN 87,638,000 for the same period of 2013.

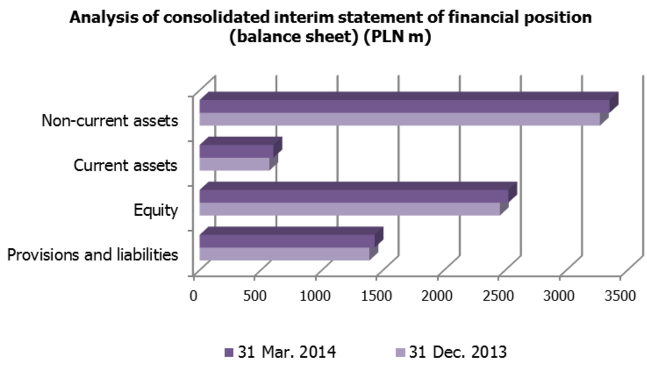
3.5.1.11 Net profit

In the first quarter of 2014, the Group generated net profit higher by 10.69% than in the first quarter of 2013 – it amounted to PLN +62,600,000 in 2014 compared to PLN +70,095,000 in 2013. The net result for the financial year attributable to the Company shareholders amounted to PLN 62,381,000 compared to PLN 69,863,000 for 2013.

3.5.2 Balance sheet

Table 6 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	31 Mar. 2014	31 Dec. 2013	Change [%] 2014/2013
Total assets	3,956,178	3,844,130	2.91%
Return on Assets (ROA) annualised	8.64%	9.00%	-4.00%
Non-current assets	3,353,167	3,274,004	2.42%
Current assets	603,011	570,126	5.77%
Equity	2,524,739	2,455,531	2.82%
Return on Equity (ROE) annualised	13.18%	13.88%	-5.04%
Provisions and liabilities	1,431,439	1,388,599	3.09%



3.5.2.1 Assets

The balance-sheet total as at 31 March 2014 went up by 2.91% to PLN 3,956,178,000 compared to the value as at 31 December 2013 (increase of PLN 112,048,000). Non-current assets increased by over 2%, which is largely the result of the investment programme carried out by the Parent. Current assets went up by nearly 6%, with the value of inventories going down by over 3%, trade and other receivables going up by ca. 22%, and cash and cash equivalents going down by nearly 8%.

As at 31 March 2014, the annualised return on assets (ROA) went down by 0.36 p.p. and amounted to 8.64% on the balance sheet date.

3.5.2.2 Equity and liabilities

The equity went up by 2.82%. It was the result of adding net profit for the three months of 2014 to equity.

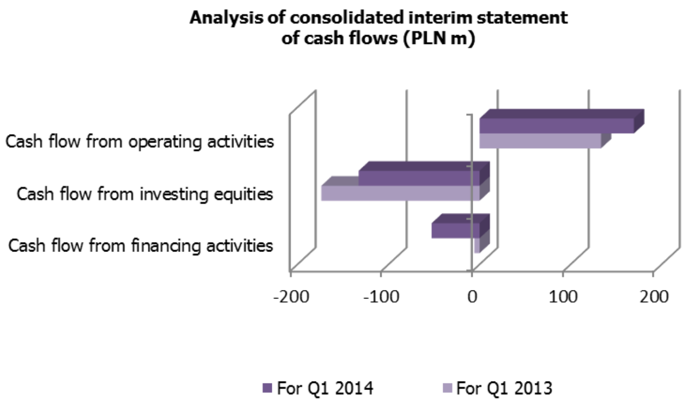
Provisions and liabilities went up by over 3% compared to the value as at 31 December 2013: current liabilities increased by 4.21% (in accordance with repayment schedules, in the first quarter of 2014 loans in the total amount of PLN 50,000,000 were repaid, whereas by the end of 2014 the repayment of loans in the amount of 371,000,000 is scheduled); long-term liabilities increased by 1.52% (PLN +8,799,000) – this group showed largely an increase in provisions for other liabilities and charges (by PLN 9,139,000).

As at 31 March 2014, a decrease in return on equity by 0.70 p.p. compared to the end of 2013 was noted. The ratio as at 31 March 2014 was 13.18% compared to 13.88% as at 31 December 2013.

3.5.3 **Cash flows**

Table 7 Interim consolidated cash flow statement in Q1 2014 and Q1 2013 [PLN '000]

Item	Q1 2014	Q1 2013	Change [%] 2014/2013
Cash flow from (used in) operating activities	169,564	133,391	27.12%
Cash flow from (used in) investing activities	-132,872	-173,816	-23.56%
Cash flow from (used in) financing activities	-52,687	-5,762	814.39%



In the first quarter of 2014, the Group generated net cash flow from operating activities higher by 27.12% than in the first quarter of 2013, in the period from 1 January to 31 March 2014 it amounted to PLN 169,564,000 compared to PLN 133,391,000 a year before. Cash flow from investing activities decreased (in absolute terms) during the three months of 2014 by 23.56% (to PLN -132,837,000) compared to the same period of 2013.

In the period from 1 January to 31 March 2014, the Group recorded negative cash flow from financing activities in the amount of PLN 52,687,000 (the Company repaid PLN 50,000 of the loans taken), whereas a year ago such cash flow amounted to PLN -5,762,000).

3.5.4 Debt and financing structure of the LW BOGDANKA Group

Table 8 Debt ratios of the LW BOGDANKA Group

Item	31 Mar. 2014	31 Dec. 2013	Change [%] 2014/2013
Overall debt ratio	36.18%	36.12%	0.17%
Ratio (debt plus employee liabilities)/EBITDA	1.03	1.09	-5.50%
Debt to equity ratio	56.70%	56.55%	0.27%
Fixed capital to non-current assets ratio	90.03%	90.10%	-0.08%
Current debt ratio	21.31%	21.04%	1.28%
Non-current debt ratio	14.87%	15.08%	-1.39%

3.5.4.1 Overall debt ratio

The overall debt ratio as at 31 March 2014 went up by 0.06 p.p. compared to the end of 2013 and reached 36.18% – the share of borrowed capital in the overall financing sources of the Group increased.

The level of the Company's debts as at 31 March 2014 did not pose any risk to the Company's operation and ability to settle liabilities in a timely manner. In 2014 it is scheduled that the Parent repays the debts in the amount of PLN 421,000,000 (loans with PKO BP and PEKAO S.A.), out of which PLN 50,000 was already repaid by 31 March 2014. In order to assure uninterrupted financing at appropriate level, the Parent plans to commence in 2014 the procedure of refinancing the above debts and to increase debt to cover expenditures for construction in progress.

3.5.4.2 Ratio (debt plus employee liabilities)/EBITDA

The ratio showing debt to EBITDA decreased at the end of March 2014 by 5.50% and reached 1.03. In the first quarter of 2014 the value of debt obligations went down by PLN 50,000,000 with employee provisions going up by PLN 7,584,000.

3.5.4.3 Debt to equity ratio

The debt to equity ratio as at 31 March 2014 went up by 0.27% compared to the ratio as at 31 December 2013 and reached 56.70% – the increase in borrowed capital was higher than the change in equity.

3.5.4.4 Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 90.03% (as at 31 March 2014) compared to 90.10% (as at 31 December 2013) – in the analysed period, the increase in fixed capital (equity plus non-current liabilities less provisions) was lower than the change in non-current assets.

3.5.5 Liquidity ratios

Table 9 Liquidity ratios [days]

Item	31 Mar. 2014	31 Dec. 2013	Change [%] 2014/2013
Current liquidity ratio	0.78	0.77	1.30%
Quick liquidity ratio	0.64	0.62	3.23%

In the period covered by the consolidated quarterly 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.

3.5.6 Turnover ratios

Table 10 Turnover ratios [days]

Item	31 Mar. 2014	31 Dec. 2013	Change [%] 2014/2013
1. Inventory turnover	27.1	23.3	16.31%
2. Debtors collection rate*	50.7	46.4	9.27%
3. Creditors payment rate**	77.3	82.0	-5.73%
4. Operating cycle (1+2)	77.8	69.7	11.62%
5. Cash conversion cycle (4-3)	0.5	-12.3	-104.07%

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

3.5.6.1 Inventory turnover

The inventory turnover ratio as at 31 March 2014 went up by ca. 16% compared to the ratio as at 31 December 2013, which is largely the result of an increase in the average value of inventories.

3.5.6.2 Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 50.7 days (as at 31 March 2014), as compared to 46.4 days (as at 31 December 2013). The increase in the rate is attributable to the increase in the average level of "Trade and other receivables" being higher than the change in Group's revenue.

3.5.6.3 Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 77.8 days, as compared to 69.7 days as at 31 December 2013, which means that the time necessary for realising the Group's current assets got longer by 8 days on the average.

3.5.6.4 Creditors payment rate

The creditors payment rate (calculated on the basis of the balance sheet item "Trade and other liabilities") in the period covered by financial information got shorter by 5.6 days to 77.3 days, as compared to the end of 2013. In the analysed period the Group had higher current trade liabilities with definitely higher costs of products, goods and materials sold.

3.5.6.5 Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of +0.5 days was achieved as at 31 March 2014 compared to –12.3 as at 31 December 2013. It means that the time for realising the current assets became the same as the time for settling trade and other liabilities.

3.6 Assessment of the possibilities of investment plans' execution

The structure of financing property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from equity and the debt held (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 debt financing, however it indicates that the costs of acquiring the debt as well as the servicing thereof may be higher than currently.

The loan together with issued bonds (totalling PLN 571,000,000), disclosed in the Group's statement of financial position as at 31 March 2014, accounted for 22.62% of its equity and 14.43% of the balance-sheet total.

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

In the first quarter of 2014 the LW BOGDANKA Group executed the scope of investment works necessary to double its coal production capacity in 2015 as compared to 2011.

The investment outlays on fixed assets under construction in the first quarter of 2014 amounted to PLN 166,583,000. These outlays concern the following investment groups:

Table 11 Key material investments of the LW BOGDANKA Group in the 3 months of 2014 and the 3 months of 2013 [PLN '000]

Key material investments	Outlays incurred from 1 Jan. 2014 to 31 Mar. 2014	Outlays incurred from 1 Jan. 2013 to 31 Mar. 2013
Construction and assembly works	88,857	68,613
Order picking and purchases of finished goods	27,218	36,896
Other	219	529
Advances towards fixed assets under construction	50,289	-
Total	**166,583**	**106,038**

The main objective of the investment plan for the first quarter of 2014 was to continue the execution of tasks aimed at doubling the coal production capacity through such measures as the extension of the Mechanical Coal Processing Plant and the expansion of the mining face, including the provision of new equipment. The plan for the first quarter of 2014 encompassed the following groups of tasks: development-related investments, including the purchase of machinery and equipment, and operating investments, such as the execution and modernisation of workings in the Bogdanka, Nadrybie and Stefanów fields, as well as investments in environmental protection and modernisation and repairs of machinery and equipment.

Development-related investments focused on investments in technical infrastrucure, i.e. continuing the extension of the Mechanical Coal Processing Plant, executing the contract for the drilling of the ST-1 exploratory borehole up to the depth of 900 m below the ground level in order to examine the hard coal deposit located in the Lublin K-3 area, as well as commencing the construction of central air-conditioning in the Bogdanka field.

As regards the purchase of machinery and equipment, the key investment are deliveries of equipment for the coal-ploughing complex No. 3 to enable the mining of 250-metre-long walls. The deliveries are made under the contract for the purchase of a new high-efficiency coal-ploughing complex No. 3 to excavate low-lying coal seams.

Operating investments focused on investments into new workings in the Bogdanka, Nadrybie and Stefanów fields, as well as on continuing the extention of the mining waste disposal site. Morever, the modernisation of the switch room and the 110/6 kV station facilities also continued, with the completion of the assembly works foreseen for stage C of 110/6 kV station modernisation (fields 4 and 6, transformer T-2, switch room 110 kV, section B of the 6kV switch room), as well as the completion of the renovation works on section B of the main transformer and switch station building and the installation of the RDB-4 switch room.

In the first quarter of 2014, works continued on the drilling of haulage way III to haul the coal excavated from the 8N wall and haulage way III/385 to haul the coal excavated from field V in seam 391. Furthermore, workings were excavated to start the mining of walls in fields I, II and IV (Bogdanka), field VI (Nadrybie) and fields VII and VIII (Stefanów).
The total length of corridor workings excavated in the first quarter of 2014 stood at 9316.9 m. The reconstruction of the workings was executed in accordance with the adopted schedules.

Table 12 Selected items of investment outlays at the LW BOGDANKA Group [PLN '000]

Item	Implementation Q1 2014	Plan for 2014
DEVELOPMENT CAPEX	**35,497**	**385,781**
Extension of the MCPP, central air-conditioning, other	25,025	62,951
Other development-related investments, including	10,472	322,830
purchase and assembly of wall ploughing complexes	-	247,259
purchase of machinery, equipment and finished goods	10,472	75,571
OPERATING CAPEX	**80,033**	**299,767**
New workings and modernisation of existing ones	71,140	238,651
Modernisation and repairs of machinery and equipment	625	13,430
Environmental protection	4,514	11,610

Other operating investments	3,754	36,076
TOTAL CAPEX LW BOGDANKA	**115,530**	**685,548**
ŁĘCZYŃSKA ENERGETYKA	**749**	**22,705**
TOTAL CAPEX LW BOGDANKA GROUP	**116,279**	**708,253**

Cumulatively, the planned investment expenditure has been completed in approx. 16.42% of the investment plan for 2014.

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

In order to pursue their strategy, the Company undertook a number of activities with regard to optimisation of the production process, costs, outsourced services and human resources management.

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.

The Dividend Policy that is part of the approved Strategy for 2013÷2015, provides for profit distributions to shareholders in the Company equal to 60% of the Company's consolidated net profit.

The above level of dividend will allow the Company to use a portion of its profit to co-finance its development expenditure on the one hand and to ensure a return of investment in its shares for its shareholders by making dividend payments at an above-average level in the coal mining industry on the other.

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.

6. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA S.A. REGARDING THE POSSIBILITY TO ACHIEVE PREVIOUSLY PUBLISHED PROJECTIONS OF RESULTS FOR THE YEAR IN QUESTION IN LIGHT OF THE RESULTS PRESENTED IN THE QUARTERLY REPORT AS COMPARED TO THE PROJECTED RESULTS

The Lubelski Węgiel BOGDANKA Group did not publish any projections of financial results for 2014.

7. DESCRIPTION OF FACTORS 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

A complete description of risks connected with the Company's activities is contained in the annual report for 2013. Below are the factors which the Company finds crucial in the perspective of the following (second) quarter.

7.1 Factors 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.

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

7.2 Factors associated with the levels of prices for raw materials for power production in Poland and the world

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The present difficult political situation, which results in particular from the crisis in Ukraine, and increases in unsold coal inventories faced by both global and domestic producers due to a decrease in demand for coal may also exert a great influence on the change in the demand for fuel, and consequently, the change in prices of coal and energy on the global and domestic market, which may affect the financial results of the Group. The LW BOGDANKA Group mitigates the risk associated with prices of raw materials for energy production by controlling costs and signing long-term commercial contracts with key customers purchasing power coal.

7.3 Factors associated with a decrease in demand for hard coal from the Polish power industry

There is a limited risk that the Polish power industry may be able to switch to a significant degree to a raw material other than hard coal within the next 10 years. The LW BOGDANKA Group has long-term contracts which secure it from the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained. The Group 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. Also the imported coal poses some risk to the demand on national coal. In the perspective of the next quarter, large coal reserves on mounds owned by the commercial power industry entain a certain degree of risk. This has, among other things, resulted from mild winter and a decrease in demand for power, and may translate into lowered demands on the part of recipients in a short-time perspective.

7.4 Factors associated with competition from other producers of power coal

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

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop;
- restructuring processes leading to the functional separation of entities responsible for generating energy, selling energy or purchasing coal as part of energy holdings;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme;
- large volumes in stock held by competitive coal producers and by electricity producers;
- poor financial standing of competitive coal producers (particularly of Kompania Węglowa S.A.); and
- the resulting sales strategy of the competitors that focuses on maintaining a healthy cash flow rather than on profitability.

In the case of coal suppliers from eastern markets, the LW BOGDANKA Group has a significant logistics advantage. In comparison to Polish producers of hard coal, its competitive strengths minimise the risk associated with price competition.

7.5 Factors 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 could 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 the LW BOGDANKA Group. At the moment the Group is undertaking activities with the aim of obtaining new licences in order to double its resources and secure a raw material base for extraction until 2050.

Recently we have noted growing interest on the part of domestic (Kompania Węglowa S.A.) and international business entities in the coal deposits in the Lublin Coal Basin. Some of those entities have been granted a licence to conduct prospecting and exploratory works in areas adjacent to LW BOGDANKA S.A. Consequently, these entities may in the future apply for mining licences. LW BOGDANKA S.A. holds a competitive advantage over prospective rivals in the form of extensive technical infrastructure necessary to conduct its operations, as well as unique know-how related to coal extraction in the mining and geological conditions of the Lublin Coal Basin deposit.

7.6 Technical and technological factors

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of the LW BOGDANKA Group, and therefore on the financial results achieved by it in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that the mine uses the longwall system and currently extracts coal from four operating and one reequipped mining faces, which operate simultaneously. At the target production capacity, however, coal is obtained from four operating and two reequipped mining faces operating simultaneously. Technical and technological mining conditions the planned level of extraction can be maintained if a periodic stoppage occurs at one of the faces by intensifying work on the other. What is more, the extension of the Stefanów Field and the start-up of a second mining shaft (mining and skip shaft 2.1 in Stefanów), which took place in September 2011, further reduced the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down. Irrespective of the factors described above, the 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 advanced mining equipment and machines is used in mining operations and intensive research and development work aimed at increasing the productivity of operations is conducted, 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 technical and technological risk.

In this group of factors, 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.

7.7 Factors associated with possible delays in planned investments

The LW BOGDANKA Group is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of those tasks were awarded through public procurements. In September 2011, lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka were launched. The LW BOGDANKA Group 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.

The main construction works have already been completed. However, minor finishing works which need to be completed in order to hand over the facilities for acceptance are still in progress. In 2014, machine and technology assembly works will be completed and commissioning procedures and test run of the plant will be started. In accordance with an annex to the agreement and agreements for additional works, the whole investment should be completed by the end of 31 August 2014. As a result, full coal beneficiation will be possible starting from 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. PROCEEDINGS PENDING BEFORE A COURT, RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first quarter of 2014, neither LW BOGDANKA S.A. nor its subsidiaries were parties to proceedings pending before court, relevant authority for arbitration proceedings or public administration authority, regarding:

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

9. RELATED PARTY TRANSACTIONS

In the first quarter of 2014, neither the Parent nor its Subsidiaries concluded any significant transactions with related entities which were individually or jointly significant and concluded on terms other than on an arm's length basis. Information about transactions of LW BOGDANKA S.A. with related entities is contained in section 10 of the Condensed Quarterly Consolidated Financial Statements of the LW BOGDANKA Group for the First Quarter ended on 31 March 2014.

10. INFORMATION WITH RESPECT TO THE COMPANY OR ITS SUBSIDIARY GRANTING SURETIES FOR A CREDIT FACILITY OR LOAN OR GRANTING GUARANTEES

In the period from 1 January 2014 to 31 March 2014, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiaries granted sureties for a credit facility or a loan, nor did they grant any guarantees jointly to a single entity or a subsidiary of that entity worth the equivalent of at least 10% of the Company's equity.

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

11.1 Significant agreements and annexes thereto

11.1.1 Significant agreements and annexes concluded with ENEA Wytwarzanie S.A.

On 15 January 2014, the Management Board of LW BOGDANKA S.A. with registered office in Bogdanka concluded with ENEA Wytwarzanie S.A. with registered office in Kozienice:

a) an Annex to the Annual Agreement for the Supply of Power Coal in 2013, attached as Appendix 4 to Long-Term Agreement No. UW/LW/01/2010, and

b) an Annual Agreement for the Supply of Power Coal in 2014, attached as Appendix 5 to Long-Term Agreement No. UW/LW/01/2010, and

c) an Annual Agreement for the Supply of Power Coal in 2015, attached as Appendix 6 to Long-Term Agreement No. UW/LW/01/2010.

The Long-Term Agreement was described in the following Current Reports: No. 5/2010 of 5 March 2010, No. 44/2010 of 20 December 2010, No. 31/2011 of 27 December 2011, 3/2013 of 15 January 2013 and No. 9/2013 of 29 March 2013.

The Annex to the Annual Agreement for 2013 extends the term of the Agreement until 31 March 2014 and sets forth the terms and conditions of supplies in the period from 1 January 2014 to 31 March 2014. The value of the Annual Agreement for 2013 decreased by PLN 3.5 million as compared to the original value.

The Annual Agreement for 2014 is valid from 1 January 2014 to 31 December 2014 and concerns the terms and conditions of coal supplies in 2014 for the ENEA Wytwarzanie S.A. power plant in Kozienice, as per the Long-Term Agreement, which are to be made following completion of supplies under the Annual Agreement for 2013. The value of said Agreement as per current prices amounts to PLN 767 million net.

The Annual Agreement for 2015 is valid from 1 January 2015 to 31 December 2015 and concerns the terms and conditions of coal supplies in 2015 for the ENEA Wytwarzanie S.A. power plant in Kozienice, as per the Long-Term Agreement. The value of said Agreement as per current prices amounts to PLN 773 million net.

As a result of concluding the Annex and Agreements mentioned above, the value of the entire Long-Term Agreement currently amounts to PLN 10,677 million net.

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

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

This was announced by the Company in Current Report No. 3/2014 of 15 January 2014.

11.1.2 Annex to significant agreement with EDF Paliwa Sp. z o.o.

On 31 March 2014, 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 (the "Agreement") of 19 July 2011 with EDF Paliwa Sp. z o.o. with registered office in Krakow. The Agreement was described in the following Current Reports: No. 21/2011 of 19 July 2011, No. 42/2012 of 1 August 2012 and No. 37/2013 of 31 October 2013.

As a result of concluding the Annex, the Parties:

- extended the term of the Agreement until 31 December 2017 (previously 31 December 2016),
- specified the terms and conditions of supplies between 2014 and 2017 (including the quantitative volumes and rules for establishing supply prices),
- established the supply price for the first half of 2015.

As a result of concluding the Annex, the estimated value of the entire Agreement amounts currently to PLN 832 million net, which represents an increase of 22.1% compared to the value specified in Current Report No. 37/2013 of 31 October 2013.

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

This was announced by the Company in Current Report No. 4/2014 of 31 March 2014.

12. Employment

Employment at the Company as at 31 March 2013 and 2014 is presented in the table below:

Table 21 Employment at the Company as at 31 March 2013 and 2014

Employment	Q1 2014	Q1 2013	Change Q1 2014/ Q1 2013 [%]
Total workers	4,191	3,909	7.21%
Underground workers	3,234	2,957	9.37%
Surface workers	957	952	0.53%
Full-time employees underground	352	335	5.07%
Full-time employees on the surface	298	293	1.71%
Total underground	3,586	3,292	8.93%
Total staff	**4,841**	**4,537**	**6.70%**

In the first quarter of 2014, employment increased by 304 employees, i.e. an increase of 6.70% as compared to the number of employees at the end of the first quarter of 2013.
In the first quarter of 2014, 158 persons were employed at LW BOGDANKA S.A.; including 145 persons employed from outside of the mining industry.

At the same time, 85 employees left the Company in the first quarter of 2014.

- 72 persons retired (pensions or disability pensions);
- 13 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 quotient of the difference between the number of people taken on and the number of people dismissed in a given period and the number of employees as of the end of the first quarter of 2014, is 0.015, which shows that more people were employed than dismissed.
The employment policy pursued by the Company in the first quarter of 2014 was in line with the employment plan adopted for 2014.

13. LIST OF TABLES

Signatures of Members of the Management Board

Name and surname	**Position**	**Date**	**Signature**
Zbigniew Stopa	President of the Management Board	6 May 2014	
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs	6 May 2014	
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics	6 May 2014	
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments	6 May 2014	

Bogdanka, 6 May 2014