DIRECTORS' REPORT ON OPERATIONS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2014 to 30 June 2014

BOGDANKA, AUGUST 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 28 August 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 Węgiel 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. 28 August 2014, 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 Sp. z o.o., EkoTRANS Bogdanka, RG Bogdanka and MR Bogdanka were included in the condensed interim consolidated financial statements of the LW BOGDANKA Group for the first half of 2014 (the "Interim Consolidated Financial Statements") by the full consolidation method, however financial data of Łęczyńska Energetyka, EkoTRANS Bogdanka and RG Bogdanka was disclosed for the entire period, whereas in the event of MR Bogdanka, financial data was disclosed for the period from the acquisition date, i.e. 17 April to 30 June 2014.

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.	+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.	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 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 amounts to PLN 82,677,000.00 and is 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 potable 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. (NIP):	505-012-39-60

The share capital stands at PLN 100,000 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 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

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

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

The business activities of the Company consist in providing services, supplies 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

Share capital of MR Bogdanka Sp. z o.o. amounts to PLN 1,000,000.00 and is divided into 20,000 shares, PLN 50 each.

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

The business activities of the Company consist in making repairs, providing regeneration services and producing steel constructions.

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

In the first half of 2014, on 17 April, the Company acquired 100% of shares in MR Bogdanka Sp. z o.o. with a total nominal value of PLN 5,000. On 18 April 2014, by virtue of a resolution of the Extraordinary Shareholders Meeting of MR Bogdanka, the share capital was increased to the amount of PLN 1,000,000 by issuing 19,900 new shares with a nominal value of PLN 50 each, acquired in their entirety by LW Bogdanka S.A. The increase in the share capital was aimed at securing the Company's working capital in the initial stage of its operation and purchasing production assets.

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

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

Table 1 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous periodic report, i.e. 8 May 2014 and 28 August 2014

Shareholder	8 May 2014		28 August 2014	
	Number of shares/ Number of votes at the GSM	The share in the share capital (%)	Number of shares/ Number of votes at the GSM	The 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 semi-annual report, and changes in shareholdings in the period from the publication of the last quarterly report, separately for each person

Table 2 Table of holdings of shares of LW BOGDANKA S.A. or authorisations thereto by persons managing and supervising LW BOGDANKA S.A. as at the date of submitting the interim report along with an indication of changes in the holdings in the period from the date of submitting the previous periodic report, individually for each person

	Number of shares as at the date of submitting the Report for Q1 2014 (8 May 2014)	**Number of shares as at the date of submitting the Report for H1 2014 (28 August 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 Company's 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 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 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.

Having assessed the financial statements for 2013, the Company's Supervisory Board stated on 24 April 2014 that the criteria for exercising the Options by persons covered by the Management Options Scheme for 2013 had been fulfilled.

As at 30 June 2014, a total of 1,143,863 options were allocated within the Management Options Scheme. Additional 41,831 options were, in line with the Terms and Conditions of the Scheme, allocated from the reserve pool to the newly-employed senior management members of key importance for the Company's development.

Details of 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 an 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST HALF OF 2014, I.E. FROM 1 JANUARY 2014 TO 30 JUNE 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 must be considered good, taking into account the processes going underway in the Group (implementation of the development strategy).

As at the date of drawing 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 are pending with a view to making new excavations available in order to maintain continuity and achieve growth of extraction in next years. Next stages of the major investment programme of the Group are pursued in order to achieve the assumed strategic objectives.

3.1.1 Production, sale and inventories of coal

In the second quarter of 2014, the production of commercial coal in the Parent decreased compared to the same period of 2013 by 1.70% and amounted to 2,015,200 tonnes, in comparison to 2,050,050 tonnes in the previous year. The total net production for two quarters of 2014 was by 4.20% higher than in the same period of 2013 and amounted to 4,253,410 tonnes in 2014, in comparison to 4,081,810 tonnes in 2013.

Table 3 Commercial coal production by LW BOGDANKA S.A. for Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013 ['000 tonnes]

For Q2 2014	For Q2 2013	For 2 Qs 2014	For 2 Qs 2013	Change For Q2 2014/ For Q2 2013	Change For 2 Qs 2014/ For 2 Qs 2013
2,015.20	2,050.05	4,253.41	4,081.81	-1.70%	4.20%

Table 4 Structure of commercial coal production by LW BOGDANKA S.A. for Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013

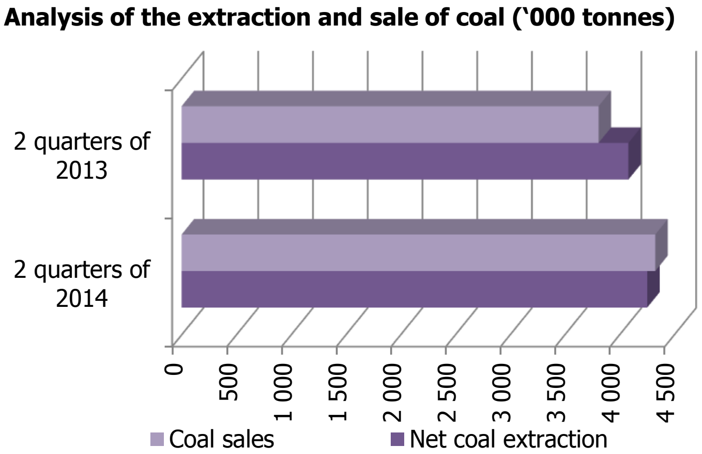
	Q2 2014	Q2 2013	For 2 Qs 2014	For 2 Qs 2013
Fine coal	98.21%	97.32%	98.57%	97.99%
Nut coal	0.27%	1.20%	0.25%	0.76%
Pea coal	1.52%	1.48%	1.18%	1.25%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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 approx. 98%).

In the second quarter of 2014 the sales of commercial coal grew by nearly 8% compared to the same period of 2013, while in the first half of 2014 the sales went up by 13.60% compared to the first half of 2013 and amounted to 4,327,330 tonnes.

Table 5 Commercial coal sales by LW BOGDANKA S.A. for Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013 ['000 tonnes]

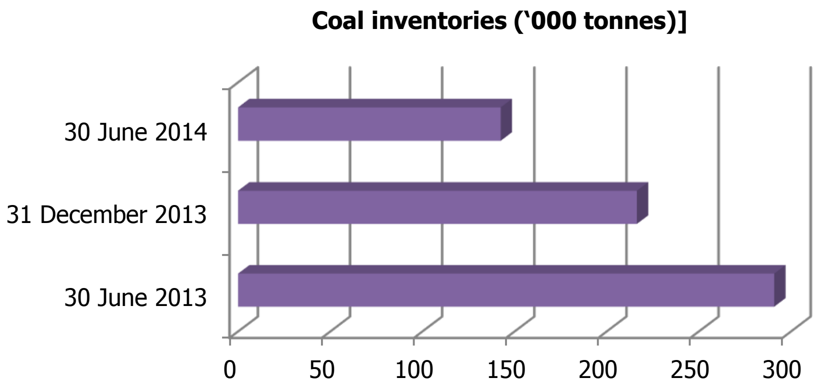
Q2 2014	Q2 2013	For 2 Qs 2014	For 2 Qs 2013	Q2 2014/ Q2 2013	For 2 Qs 2014/ For 2 Qs 2013
2,101.99	1,949.99	4,327.33	3,809.15	7.79%	13.60%



The level of coal inventories at the end of the first half of 2014 (30 June 2014) was 142,520 tonnes, which means a decrease by 73,920 tonnes, i.e. by 34.15%, compared to the level as at 31 December 2013 (at the same time it was lower by 148,450 tonnes than as at 30 June 2013). The level of coal inventories presented at the end of the first half of 2014 corresponds to ca. five days of commercial coal production by the Parent.

Table 6 Inventories of coal after H1 2014 and H1 2013 and as at 31 Dec. 2013 ['000 tonnes]

Item	30 Jun. 2014	31 Dec. 2013	30 Jun. 2013	Change [%] (30 Jun. 2014/ 31 Dec. 2013)	Change [%] (30 Jun. 2014/ 30 Jun. 2013)
Inventories of coal	142.52	216.44	290.97	-34.15%	-51.02%



3.1.2 Revenue and key customers

In the second quarter of 2014 the LW BOGDANKA Group generated revenue of PLN 463,831,000, which means an increase by 3.5% compared to the second quarter of 2013. The total revenue recorded for the period from 1 January 2014 to 30 June 2014 amounted to PLN 945,371,000, and were higher than the revenue in the same period of the previous year by over 7.56%.

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 approx. 95% of the Group's revenue. In the second quarter of 2014 the Group noted an increase in revenue from coal sales by nearly 3% compared to the second quarter of 2013, whereas the comparison of first half of 2014 to the same period in 2013 reveals an increase by 6.88%.

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 sold coal 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 30 June 2014 was adjusted by PLN 49,488,000, while in the same period of the previous year – by PLN 48,600,000.

Approximately 95% of coal sales (in terms of value) realised in the period from 1 January to 30 June 2014 were carried out 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 Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013 [PLN '000]

Item	For Q2 2014	For Q2 2013	For 2 Qs 2014	For 2 Qs 2013	Change [%] (For Q2 2014/ For Q2 2013)	Change [%] (For 2 Qs 2014/ For 2 Qs 2013)
Sales of coal	443,738	432,116	900,682	842,740	2.69%	6.88%
Sales of ceramics	1,097	1,682	2,590	2,018	-34.78%	28.34%
Other activities	16,295	12,157	36,860	29,268	34.04%	25.94%
Sales of goods and materials	2,701	2,191	5,239	4,878	23.28%	7.40%
Total revenue	**463,831**	**448,146**	**945,371**	**878,904**	**3.50%**	**7.56%**

The revenue from other activities (which includes the revenue generated by subsidiaries) in the first half of 2014 amounted to PLN 36,860,000, compared to PLN 29,268,000 in the same period of 2013 (+25.94%).

In the first half of 2014, the revenue from other activities accounted for 3.90% of the total revenue, compared to 3.33% 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 (mainly of Łęczyńska Energetyka),
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the first half of 2014 dropped from 0.56% to 0.55% compared to the first half 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 Structure of the LW BOGDANKA Group revenue by product range in Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013

Item	For Q2 2013	For Q2 2012	For 2 Qs 2013	For 2 Qs 2012
Sales of coal	95.67%	96.42%	95.28%	95.88%
Sales of ceramics	0.24%	0.38%	0.27%	0.23%
Other activities	3.51%	2.71%	3.90%	3.33%
Sales of goods and materials	0.58%	0.49%	0.55%	0.56%
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 2014 and 2013, 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 9 Geographic structure of revenue of the LW Bogdanka Group in Q2 2014 and Q2 2013 and 2 Qs 2014 and 2 Qs 2013 [PLN '000]

Item	For Q2 2014	% share	For Q2 2013	% share	For 2 Qs 2014	% share	For 2 Qs 2013	% share
Domestic sales	463,658	99.96%	447,800	99.92%	945,121	99.97%	878,520	99.96%
Export sales	173	0.04%	346	0.08%	250	0.03%	384	0.04%
Total revenue	**463,831**	**100%**	**448,146**	**100%**	**945,371**	**100%**	**878,904**	**100%**

3.2 Costs of LW BOGDANKA S.A.

This section presents costs of LW BOGDANKA S.A. by type and by function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, 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 (trade coal) or whether they have been used by the Company to finance the construction of a given investment facility (including longwall galleries) with its own funds and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation/amortisation costs of the period in question.

3.2.1 Costs by type

In the second quarter of 2014 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 442,632,000, which means that they were higher by 6.53% than in the second quarter of 2013. The increase in costs in the second quarter of 2014 was largely the result of recorded increase in costs of outsourced services, depreciation and amortisation costs, and employee benefits (remunerations together with mandatory contributions and other benefits in favour of the employees). The value of outsourced services in the second quarter of 2014 compared to the second quarter of 2013 went up from PLN 105,270,000 to PLN 117,965,000 (+12.06%).

The total costs by type amounted to PLN 928,005,000 in the period from 1 January to 30 June 2014, compared to PLN 870,962,000 in the same period of the previous year. In the analysed period gross output amounted to PLN 6,435,000 tonnes (a year-to-year increase of 9.62%), the total length of completed galleries was 16.37 kilometres (a year-to-year increase of 22.56%), while the length of floor reconstruction and dinting was 15.87 kilometres (a year-to-year increase of 63.52%).

The value of outsourced services went up by 11.58% to PLN 235,148,000, the value of employee benefits increased by 8.67% to PLN 246,366,000, while depreciation and amortisation was up by 10.78% to PLN 176,775,000 (data for 6 months of 2014).

The outsourced services in the analysed period (the first half of 2014) compared to the same period of the previous year saw:

- an increase in the value of drilling and mining services (as a result of drilling and reconstruction of excavations), the length of constructed galleries as well as floor reconstruction and dinting went up,
- an increase in the value of transport of stone – the amount of rock located outside the Mine's site went up as well as the 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 grew by PLN 19,665,000 – average employment increased. As disclosed in Table 24 of the Report, employment level as at 30 June 2014 was higher by 9.41% compared to 30 June 2013. Further, the costs of employee benefits in H1 2014 contain a portion of option scheme for 2014 covering the amount of PLN 5.91 million; in H1 2013 the option scheme was not launched yet.

The value of depreciation and amortisation went up by 10.78% (to PLN 176,775,000) – depreciation/amortisation of non-current assets and to the activity depreciation (calculated in reference to the galleries closed).

The value of taxes, fees and charges paid went up in the first half of 2014 to PLN 17,380,000 from PLN 16,024,000 in the first half of 2013 – the exploitation fee and real property tax was higher.

The value of other costs increased from PLN 12,196,000 (H1 2013) to 14,096,000 (H1 2014), largely because of a higher property insurance premium.

The total value of materials and energy used fell by 3.30% compared to the H1 2013 and amounted to PLN 233,726,000. In the analysed period the costs of energy used (the total of electricity, heat and water energy, and other utilities) dropped by 10.8% which was accompanied by a concurrent drop in the value of used materials (by 1.3%). The decrease in electricity used (dominant item in energy) is a consequence of the negotiated lower (by approx. 17%) unit purchase price (with the increase in the nominal use of electricity, which was proportionate to the change in gross extraction).

The result of an adjustment of costs by type by the value of activities for the Company's own needs, accruals and deferrals, and the value of coal acquired while drilling excavations, with regard taken of the provisions, change in products and the costs of goods and materials sold, will give own cost of sales for the first half of 2014 amounting to PLN 816,036,000. As compared to the same period of the previous year, it is higher by 18.23% (with a year-to-year increase by 13.60% in the amount of coal sold).

Table 3 Costs by type of LW BOGDANKA S.A. [PLN '000]

Item	Q2 2014	Q2 2013	For 6 months of 2014	For 6 months of 2013	Change [Q2 2014/ Q2 2013]	Change [For 6 months of 2014 / For 6 months of 2013]
Amortisation/depreciation	89,058	77,605	176,775	159,575	14.76%	10.78%
Materials and energy consumption	110,245	117,392	233,726	241,696	-6.09%	-3.30%
Outsourced services	117,965	105,270	235,148	210,746	12.06%	11.58%
Employee benefits	114,671	105,612	246,366	226,701	8.58%	8.67%
Entertainment and advertising costs	2,328	1,690	4,514	4,024	37.75%	12.18%
Taxes, fees and charges	7,560	7,079	17,380	16,024	6.79%	8.46%
Other costs	805	848	14,096	12,196	-5.07%	15.58%
Total costs by type	**442,632**	**415,496**	**928,005**	**870,962**	**6.53%**	**6.55%**
Activities for the Company's own needs	-60,190	-66,341	-126,630	-133,245	-9.27%	-4.96%
Accruals and deferrals	26,929	19,778	22,578	22,791	36.16%	-0.93%
Value of coal acquired from excavations	-20,412	-23,288	-49,488	-48,600	-12.35%	1.83%
Provisions and other presentation adjustments (IAS)	7,891	17,058	21,202	19,952	-53.74%	6.27%
Total costs of production	**396,850**	**362,703**	**795,667**	**731,860**	**9.41%**	**8.72%**
Change in inventory of products	15,811	-15,695	15,181	-46,463	-200.74%	-132.67%
Value of goods and materials sold	2,690	2,125	5,188	4,798	26.59%	8.13%
Own cost of sales, including:	**415,351**	**349,133**	**816,036**	**690,195**	**18.97%**	**18.23%**
Costs of products, goods and materials sold	381,431	315,238	748,898	624,512	21.00%	19.92%
Selling costs	10,439	11,153	20,323	21,324	-6.40%	-4.69%
Administrative expenses	23,481	22,742	46,815	44,359	3.25%	5.54%

* The Company has applied amendments to IAS 19 (Employee benefits) and restated the comparable data for Q1 2013, therefore data for Q2 2013 has also been restated.

The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the first half of 2014 (compared to the same period of the previous year) the share of employee benefits costs, costs of outsourced services, and depreciation and amortisation costs went up (to, respectively, 26.55%, 25.34% and 19.04%), while the share of materials and energy consumption costs in the total costs went down. The sum total of employee benefits, outsourced services and materials consumption generated in both compared periods ca. 78% of the Company's total costs.

Table 4 Structure of costs by type at LW BOGDANKA S.A.

Item	Q2 2014	Q2 2013	For 6 months of 2014	For 6 months of 2013
Amortisation/depreciation	20.11%	18.68%	19.04%	18.32%
Materials and energy consumption	24.91%	28.25%	25.19%	27.75%
Outsourced services	26.65%	25.34%	25.34%	24.20%
Employee benefits	25.91%	25.42%	26.55%	26.03%
Entertainment and advertising costs	0.53%	0.41%	0.49%	0.46%
Taxes, fees and charges	1.71%	1.70%	1.87%	1.84%
Other costs	0.18%	0.20%	1.52%	1.40%
Total costs by type	**100.00%**	**100.00%**	**100.00%**	**100.00%**

3.2.2 Costs by function

In the first half of 2014 the own cost of sales (by function) amounted to PLN 816,036,000 and was higher by 18.23% than the cost in the first half of 2013. An increase in the own cost of sales between the first half of 2014 and the first half of 2013 is caused by higher costs by type incurred and slightly falling inventories of coal during the first half of 2014 (in the first half of 2013 there was a dynamic increase in inventories of coal, which translated into a lower own cost of sales – lower cost base).

Table 5 Costs of LW BOGDANKA S.A. by function [PLN '000]

Item	Q2 2014	Q2 2013	For 6 months of 2014	For 6 months of 2013	Change [Q2 2014/ Q2 2013]	Change [For 6 months of 2014 / For 6 months of 2013]
Costs of products, goods and materials sold	381,431	315,238	748,898	624,512	21.00%	19.92%
Selling costs	10,439	11,153	20,323	21,324	-6.40%	-4.69%
Administrative expenses	23,481	22,742	46,815	44,359	3.25%	5.54%
Own cost of sales	**415,351**	**349,133**	**816,036**	**690,195**	**18.97%**	**18.23%**

* The Company has applied amendments to IAS 19 (Employee benefits) and restated the comparable data for Q1 2013, therefore data for Q2 2013 has also been restated.

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

Table 6 Structure of costs by function at LW BOGDANKA S.A.

Item	Q2 2014	Q2 2013	For 6 months of 2014	For 6 months of 2013	Change [Q2 2014/ Q2 2013]	Change [For 6 months of 2014 / For 6 months of 2013]
Costs of products, goods and materials sold	91.84%	90.30%	91.77%	90.48%	1.71%	1.43%
Selling costs	2.51%	3.19%	2.49%	3.09%	-21.32%	-19.42%

Administrative expenses	5.65%	6.51%	5.74%	6.43%	-13.21%	-10.73%
Own cost of sales	**100.00%**	**100.00%**	**100.00%**	**100.00%**		

* The Company has applied amendments to IAS 19 (Employee benefits) and restated the comparable data for Q1 2013, therefore data for Q2 2013 has also been restated.

3.3 Provisions at the LW BOGDANKA Group

Table 7 Balance-sheet provisions at the LW BOGDANKA Group at the end of H1 2014 and H1 2013 and at the end of 2013 [PLN '000]

Item	As at 30 Jun. 2014	As at 31 Dec. 2013	As at 30 Jun. 2013	Change 30 Jun. 2014/ 30 Jun. 2013 [%]	Change 30 Jun. 2014/ 31 Dec. 2013 [%]
Employee provisions	214,015	200,030	219,741	-2.61%	6.99%
Real property tax liabilities-excavations	32,581	27,846	11,673	179.11%	17.00%
Provision for mine closure costs	101,248	85,278	96,355	5.08%	18.73%
Mining damage	12,230	12,933	11,211	9.09%	-5.44%
Provision for claims of the Social Security Institution (ZUS) for occupational injury (accident) insurance	10,440	0	0	-	-
Other	24,555	24,058	22,858	7.42%	2.07%
TOTAL	**395,069**	**350,145**	**361,838**	**9.18%**	**12.83%**

Table 8 Change in provisions at the LW BOGDANKA Group for Q2 2014 and Q2 2013 and H1 2014 and H1 2013 [PLN '000]

Item	Change in Q2 2014	Change in Q2 2013	Change in H1 2014	Change in H1 2013	Change Q2 2014/ Q2 2013	Change H1 2014/ H1 2013
Employee provisions	6,401	25,345	13,985	27,073	-74.74%	-48.34%
Real property tax liabilities-excavations	2,395	1,085	4,735	2,171	120.74%	118.10%
Provision for mine closure costs	6,831	6,494	15,970	6,494	5.19%	145.92%
Mining damage	-375	-1,432	-703	-2,259	-73.81%	-68.88%
Provision for claims of the Social Security Institution (ZUS) for occupational injury (accident) insurance	10,440	0	10,440	0	-	-
Other	-166	-662	497	-168	-74.92%	-395.83%
TOTAL	**25,526**	**30,830**	**44,924**	**33,311**	**-17.20%**	**34.86%**

The total provisions as at 30 June 2014 amounted to PLN 395,069,000, which means an increase by 12.83% compared to the value as at the end of the previous financial year. Employee provisions increased by 6.99% and amounted to PLN 214,015,000 as at 30 June 2014.

Change in provisions in the second quarter of 2014 amounted to PLN +25,526,000, which was caused predominantly by creating a provision for claims of the Social Security Institution (ZUS) for occupational injury (accident) insurance (+PLN 10,440,000).

3.4 Selected financial data

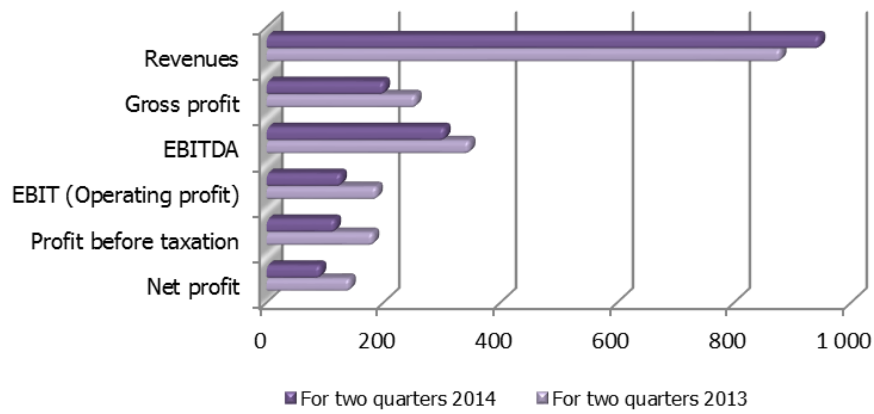
3.4.1 Group's revenue, costs, profit and loss

Table 9 Analysis of the consolidated income statement [PLN '000]

Item	For Q2 2014	For Q2 2013	Change [%] 2014/2013	For 2 Qs 2014	For 2 Qs 2013	Change [%] 2014/2013
Revenue	463,831	448,146	3.50%	945,371	878,904	7.56%
Costs of products, goods and materials sold, selling and administrative expenses	414,201	351,203	17.94%	810,636	691,176	17.28%
Profit on sales	**49,630**	**96,943**	**-48.80%**	**134,735**	**187,728**	**-28.23%**
Profit on sales margin (Gross margin)	*10.70%*	*21.63%*	*-50.53%*	*14.25%*	*21.36%*	*-33.29%*
Other income	750	-519	-244.51%	828	1,908	-56.60%
Other costs	528	186	183.87%	999	542	84.32%
Net operating profit/loss	**49,852**	**96,238**	**-48.20%**	**134,564**	**189,094**	**-28.84%**
Other net profits/losses	-9,152	2,204	-515.25%	-7,906	-938	742.86%
Operating profit (EBIT)	**40,700**	**98,442**	**-58.66%**	**126,658**	**188,156**	**-32.68%**
EBIT margin	*8.77%*	*21.97%*	*-60.08%*	*13.40%*	*21.41%*	*-37.41%*
EBITDA	**130,119**	**173,938**	**-25.19%**	**304,268**	**346,550**	**-12.20%**
EBITDA margin	*28.05%*	*38.81%*	*-27.72%*	*32.19%*	*39.43%*	*-18.36%*
Finance income	2,250	1,636	37.53%	4,601	2,904	58.44%
Finance costs	5,368	5,741	-6.50%	14,463	9,085	59.20%
Profit before taxation	**37,582**	**94,337**	**-60.16%**	**116,796**	**181,975**	**-35.82%**
Pre-tax profit margin	8.10%	21.05%	-61.52%	12.35%	20.70%	-40.34%
Income tax	8,758	22,398	-60.90%	25,372	39,941	-36.48%
Net profit for the financial year	**28,824**	**71,939**	**-59.93%**	**91,424**	**142,034**	**-35.63%**
Net margin	*6.21%*	*16.05%*	*-61.31%*	*9.67%*	*16.16%*	*-40.16%*
- attributable to Parent's shareholders	28,836	71,881	-59.88%	91,217	141,744	-35.65%

* The Company has applied amendments to IAS 19 (Employee benefits) and restated the comparable data for Q1 2013, therefore data for Q2 2013 has also been restated.

***Analysis of consolidated income statement (in PLN '000)*]**



3.4.1.1 Revenue

The value of revenue for the second quarter of 2014 increased by 3.50% compared to the same period of the previous year and amounted to PLN 463,831,000. The revenue for the period from 1 January to 30 June 2014 amounted to PLN 945,371,000 compared to PLN 878,904,000 in the same period of the previous year (+7.56%).

3.4.1.2 Costs of products, goods and materials sold, selling costs, administrative expenses

In the second quarter of 2014 the costs of products, goods and material sold plus selling and administrative expenses went up by 17.94% compared by the same period of the previous year and amounted to PLN 414,201,000. In the two quarters of 2014 the above costs amounted to PLN 810,636,000 compared to PLN 691,176,000 a year before.

3.4.1.3 Profit on sales

The profit on sales in the second quarter of 2014 went down by 48.80% compared to the second quarter of 2013 and amounted to PLN 49,630,000. Profit on sales margin in the analysed period of 2014 was 10.70% compared to 21.68% in the same period of the previous year. The profit on sales for the period from 1 January to 30 June 2014 amounted to PLN 134,735,000 (margin of 14.25%) compared to PLN 187,728,000 (margin of 21.36%) for the same period of 2013.

3.4.1.4 Other income

In the second quarter of 2014 other income amounted to PLN +750,000 compared to PLN -519,000 a year before, while in the first half of 2014 it amounted to PLN 828,000 compared to PLN 1,908,000 (2013). The dominant item in the value for 2014 is income from received damages, released provisions for liabilities and received co-financing.

3.4.1.5 Other costs and other net profits/losses

In the second quarter of 2014 other profits/losses amounted to PLN -9,152,000, while in the second quarter of 2013 they equalled PLN 2,204,000, which means a change of PLN 11,356,000. This change relates largely to created provision for liabilities to the Social Insurance Institution (nearly PLN 10 million). The item includes also the result on a bargain purchase of a subsidiary. Changes presented in the second quarter are dominant for the entire half year.

3.4.1.6 EBIT

The operating profit (EBIT) in the second quarter of 2014 amounted to PLN 40,700,000 and was lower by 58.66% compared to the second quarter of 2013. EBIT margin in the second quarter of 2014 was 8.77%, i.e. it was lower by 13.2 p.p. than in the second quarter of the previous year. EBIT for the two quarters of 2014 amounted to PLN 126,658,000 and was lower by PLN 61,498,000 than in the same period of the previous year.

3.4.1.7 EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the second quarter of 2014 went down by 25.19% compared to the second quarter of 2013 and amounted to PLN 130,119,000. Depreciation and amortisation in the second quarter of 2014 amounted to PLN 89,419,000 compared to PLN 75,496,000 in the same period of 2013.

EBITDA margin the second quarter of 2014 was 28.05% and was lower than in the same period of 2013 (38.81%).

EBITDA margin in the period from 1 January to 30 June 2014 was 32.19% (EBITDA of PLN 304,268,000) compared to 39.43% (EBITDA of PLN 346,550,000) in the same period of the previous year.

3.4.1.8 Finance income

The finance income in the second quarter of 2014 amounted to PLN 2,250,000, which means an increase of 37.53% compared to the same period of the previous year, while the finance income in the first half of 2014 amounted to PLN 4,601,000 compared to PLN 2,904,000 a year before. Increased income has been caused by higher levels of average cash available during the year within the Group, which translates into higher interest income.

3.4.1.9 Finance costs

The finance costs in the second quarter of 2014 amounted to PLN 5,368,000 compared to PLN 5,741,000 in 2013 (decrease by 6.50%). The finance costs for the two quarters of 2014 were higher by ca. 60% than in the first half of 2013. The total indebtedness of the Group amounted to PLN 599,071,000 as at 30 June 2014 compared to PLN 437,850,000 as at 30 June 2013. In 2014 higher interest expenses on the indebtedness were paid and additionally a discount on long-term provisions (FLK) was accounted for.

3.4.1.10 Profit before taxation

In the second quarter of 2014 the Group generated pre-tax profit which was lower by 60.16% than in the second quarter of 2013, pre-tax profit for the period from 1 April to 30 June 2014 amounted to PLN 37,582,000 compared to PLN 94,337,000 in the same period of 2013. Pre-tax profit for the period from 1 January to 30 June 2014 amounted to PLN 116,796,000 compared to PLN 181,975,000 for the same period of the previous year.

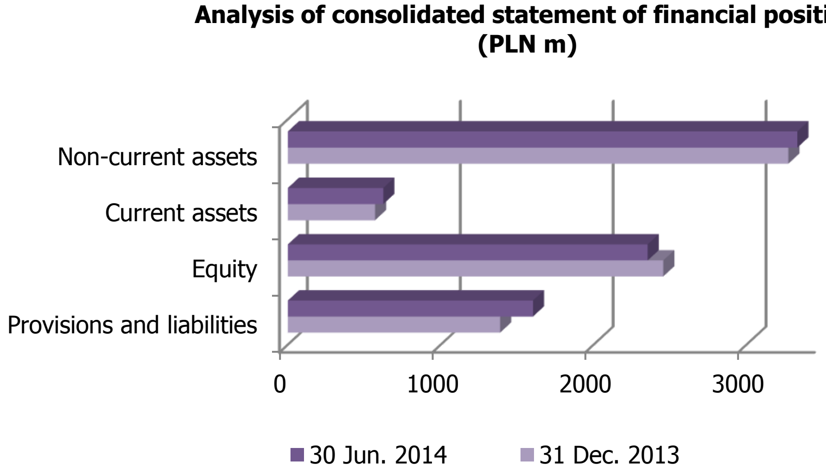
3.4.1.11 Net profit

In the second quarter of 2014 the Group generated net profit lower by 59.93% than in the second quarter of 2013 – it amounted to PLN +28,824,000 in 2014 compared to PLN +71,939,000 in 2013. The net result for the second quarter of 2014 attributable to the Company shareholders amounted to PLN 28,836,000 compared to PLN 71,881,000 for the same period of the previous year. The net profit for the period from 1 January to 30 June 2014 amounted to PLN 91,424,000 compared to PLN 142,034,000 for the same period of 2013.

3.4.2 Balance sheet

Table 10 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	30 Jun. 2014	31 Dec. 2013	Change [%] 2014/2013
Total assets	3,957,149	3,844,130	2.94%
Return on Assets (ROA) annualised	7.34%	9.00%	-18.44%
Non-current assets	3,332,851	3,274,004	1.80%
Current assets	624,298	570,126	9.50%
Equity	2,353,788	2,455,531	-4.14%
Return on Equity (ROE) annualised	12.08%	13.88%	-12.97%
Provisions and liabilities	1,603,361	1,388,599	15.47%



3.4.2.1 Assets

The balance-sheet total as at 30 June 2014 went up by 2.94% to PLN 3,957,149,000 compared to the value as at 31 December 2013 (increase of PLN 113,019,000). Non-current assets increased by nearly 2%, which is largely the result of the investment programme carried out by the Parent. Current assets went up by 9.5%, with the value of inventories going down by nearly 13%, trade and other receivables going up by ca. 31%, and cash and cash equivalents going down by ca. 4%.

As at 30 June 2014, the annualised return on assets (ROA) went down by 1.66 p.p. and amounted to 7.34% on the balance-sheet date.

3.4.2.2 Equity and liabilities

The equity went down by 4.14%. It was the result of adding net result for the six months of 2014 to equity and accounting for the result for 2013 (disclosed in the balance sheet also as dividend liabilities).

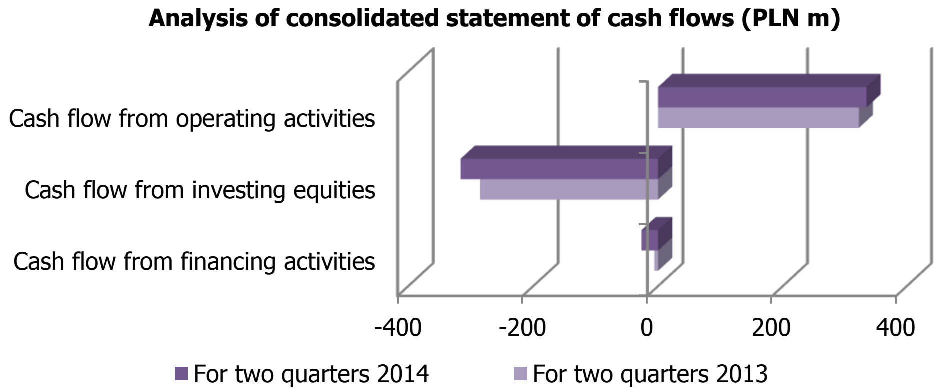
Provisions and liabilities went up by over 15% compared to the value as at 31 December 2013: current liabilities increased by 12.06% (dividend liabilities went up, with the value of current loans and borrowings going down at the same time); long-term liabilities increased by 20.23% (PLN +117,238,000) – this group showed largely an increase in bond issue liabilities.

As at 30 June 2014 a decrease in return on equity by 1.80 p.p. compared to the end of 2013 was noted. The ratio as at 30 June 2014 was 12.08% compared to 13.88% as at 31 December 2013.

3.4.3 Cash flows

Table 11 Consolidated cash flows in Q2 2014 and Q2 2013 and H1 2014 and H1 2013 [PLN '000]

Item	For Q2 2014	For Q2 2013	Change [%] 2014/2013	For 2 Qs 2014	For 2 Qs 2013	Change [%] 2014/2013
Cash flow from (used in) operating activities	165,395	189,266	-12.61%	334,959	322,657	3.81%
Cash flow from (used in) investing activities	-183,422	-111,475	64.54%	-316,294	-285,291	10.87%
Cash flow from (used in) financing activities	26,098	-261	-	-26,589	-6,023	341.46%



In the second quarter of 2014 the Group generated net cash flow from operating activities lower by 12.61% than in the second quarter of 2013, while in the period from 1 January to 30 June 2014 it amounted to PLN 334,959,000 compared to PLN 322,657,000 a year before (+3.81%).

Cash flow from investing activities increased (in absolute terms) during the second quarter of 2014 by 64.54% (to PLN -183,422,000) compared to the same period of 2013. The analysis of semi-annual investing cash flow shows an increase in outflows from PLN 285,291,000 (2013) to PLN 316,294,000 (2014).

In the period from 1 January to 30 June 2014 the Group recorded positive cash flow from financing activities in the amount of PLN 26,098,000 (the Parent repaid PLN 90,000,000 of the loans taken and acquired nearly

PLN 120,000,000 from bond issue and overdraft use). By 30 June 2014 the Parent acquired PLN 100,000,000 from bond issue, and at the same time repaid (in accordance with the agreed schedule) PLN 140,000,000 of the loans taken previously.

3.4.4 Debt and financing structure of the LW BOGDANKA Group

Table 12 Debt ratios of the LW BOGDANKA Group

Item	30 Jun. 2014	31 Dec. 2013	Change [%] 2014/2013
Overall debt ratio	40.52%	36.12%	12.18%
Ratio (debt plus employee liabilities)/EBITDA	1.14	1.09	4.59%
Debt to equity ratio	68.12%	56.55%	20.46%
Fixed capital to non-current assets ratio	88.50%	90.10%	-1.78%
Current debt ratio	22.91%	21.04%	8.89%
Non-current debt ratio	17.61%	15.08%	16.78%

3.4.4.1 Overall debt ratio

The overall debt ratio as at 30 June 2014 went up by 4.40 p.p. compared to the end of 2013 and reached 40.52% - the share of borrowed capital in the overall financing sources of the Group increased.

The level of the Company's debts as at 30 June 2014 did not pose any risk to the Company's operation and ability to settle liabilities in a timely manner. By 30 June the amount of PLN 140,000,000 was repaid on account of the Group's loans of PLN 421,000,000 (as at 31 December 2013).

On 1 August 2014 the Parent used the proceeds from the new bond issue to make an early repayment of all loans held (as at 30 June 2014) in the total amount of PLN 281,000,0000, thereof PLN 181,000,000 covered the loan from PKO BP S.A. and PLN 100,000,000 covered the loan from PEKAO S.A.

3.4.4.2 Ratio (debt plus employee benefits)/EBITDA

The ratio showing debt to EBITDA increased at the end of June 2014 by 4.59% and reached 1.14 – in the first half of 2014 a decrease in EBITDA was higher than a decrease in debt.

3.4.4.3 Debt to equity ratio

The debt to equity ratio as at 30 June 2014 went up by 20.46% compared to the ratio as at 31 December 2013 and reached 68.12% - the equity went down with the provisions and liabilities going up at the same time.

3.4.4.4 Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 88.50% (as at 30 June 2014) compared to 90.10% (as at 31 December 2013) – in the analysed period the fixed capital (equity plus non-current liabilities less provisions) slightly fell with the non-current assets going up.

3.4.5 Liquidity ratios

Table 13 Liquidity ratios [days]

Item	30 Jun. 014	31 Dec. 2013	Change [%] 2014/2013
Current liquidity ratio	0.76	0.77	-1.30%
Quick liquidity ratio	0.64	0.62	3.23%

In the period covered by the interim consolidated 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.

3.4.6 Turnover ratios

Table 14 Turnover ratios [days]

Item	30 Jun. 2014	31 Dec. 2013	Change [%] 2014/2013
Inventory turnover	25	23	8.70%
Debtors collection rate*	54	46	17.39%
Creditors payment rate**	66	82	-19.51%
Operating cycle (1+2)	79	69	14.49%
Cash conversion cycle (4-3)	13	-13	-

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

3.4.6.1 Inventory turnover

The inventory turnover ratio as at 30 June 2014 went up by ca. 9% compared to the ratio as at 31 December 2013, which is largely the result of an increase in the average value of inventories.

3.4.6.2 Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 54 days (as at 30 June 2014), as compared to 46 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.

3.4.6.3 Operating cycle

The operating cycle for current assets (a sum of inventory turnover and debtors collection rate) in the analysed period was 79 days, as compared to 69 days as at 31 December 2013, which means that the time necessary for realising the Group's current assets got longer by 10 days on the average.

3.4.6.4 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 16 days to 66 days, as compared to the end of 2013. In the analysed period the Group had lower average current trade liabilities.

3.4.6.5 Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of +13 days was achieved as at 30 June 2014 compared to –13 days as at 31 December 2013. It means that the time for realising the current assets got longer, with the time for settling trade and other liabilities becoming shorter (the Group used its equity to a larger extent).

3.5 Information on financing sources and financial instruments

Derivative transactions are established only on the largest agreements for the purchase of machines and devices, payments of which are expressed in Euros - their aim is to secure the foreign currency exchange rate (mitigation of currency exchange risk) for future payments. Currently, the Parent is a party to two forward currency transactions.

The first security is established for performance of an agreement worth EUR 47 million for supply and assembly of another ploughing system for low seam mining. The first transaction of EUR 4.3 million was settled on 2 September 2013, and the next one of EUR 1.08 million was settled on 15 November 2013. The third out of four forward transactions, amounting to EUR 33.27 million, was settled on 31 July 2014.

The second security is established for performance of an agreement worth EUR 39.75 million for supply and assembly of a ploughing system for low seam mining. The forward transaction was concluded on 24 March 2014 with the value date falling in the first quarter of 2015. The total value of established security is EUR 27.83 million.

On 27 September 2013, as part of the "Bond Issue Programme of up to PLN 300,000,000" the Parent issued, in two series, 1,500 bonds with a nominal value of PLN 100,000 each – the total value of the completed part of the programme is PLN 200 million. In June 2014 the last series of bonds was issued – consequently the entire "Bond Issue Programme of up to PLN 300,000,000" has been completed.

On 10 April 2014 the result of a tender for a bank service entailing the advancement of an overdraft credit facility in PLN up to the limit of PLN 150,000,000 and the servicing thereof was announced (the agreement was signed on 24 May 2014). As at 30 June 2014 the Group's unused credit line in current account (under the agreement for a revolving overdraft credit facility) amounted to PLN 131,957,000.

On 30 June 2014 the Parent signed with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego an agreement for a new Bond Issue Programme which provides for the issue of bonds by LW BOGDANKA S.A. of up to PLN 600,000,000. On 1 August 2014 Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego acquired jointly two series of bonds. In implementation of the Programme provisions, the Underwriters acquired jointly 300 registered bonds with a nominal value of PLN 1 million each, and jointly 100 registered bonds with a nominal value of PLN 1 million each. The total amount of bonds acquired by the Underwriters is PLN 400 million. The bond redemption date is 30 June 2015.

In the first half of 2014 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 Group continuously analyses inflows and outflows - knows in advance what amounts will be due. Further, the cooperation with banks is very good, which allows the Parent to obtain additional debt financing, in accordance with its long-term strategic plan.

3.6 Capital investments and deposits in the LW BOGDANKA Group

The value of cash held by the Group as at the end of June 2014 amounted to PLN 283,223,000, out of which the funds of PLN 261,656,000 belonged to the Parent. The amount of PLN 283,223,000 is disclosed as follows:

- PLN 79,143,000 is disclosed in non-current assets,
- PLN 204,080,000 is disclosed in current assets.

The amount of PLN 79,143,000 covers funds 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 bank deposit).

The amount of PLN 204,080,000 includes cash (cash available) held in short- and mid-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). The funds accumulated at the Parent amount to PLN 182,513,000, while the funds accumulated at subsidiaries amount to PLN 21,576,000.

On 17 April 2014 the Parent signed with WARBO S.A. a share purchase agreement covering 100% of shares in MR Bogdanka Sp. z o.o. The price paid by the Parent for the acquired shares amounted to PLN 5,000. MR Bogdanka conducts the activity within the scope of repairs, regeneration and steel structure construction services.

3.7 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 599,071,000), disclosed in the Group's statement of financial position as at 30 June 2014, accounted for 25.45% of its equity and 15.14% of the balance-sheet total.

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

In the first half of 2014 the LW BOGDANKA Group executed the scope of investment works necessary to double extraction capacity in 2015, compared to 2011.

In the first half of 2014, due to investment execution the outlays on property, plant and equipment in construction amounted to PLN 274,564,000. These outlays concern the following investment groups:

Table 15 Key material investments of LW BOGDANKA in the 6 months of 2014 and the 6 months of 2013 [PLN '000]

Key material investments	Outlays incurred from 1 Jan 2014 to 30 Jun 2014	Outlays incurred from 1 Jan 2013 to 30 Jun 2013
Construction and assembly works	170,029	156,880
Order picking and purchases of finished goods	54,824	65,705
Other	139	1,440
Prepayments for construction in progress	49,572	0
Total	**274,564**	**224,025**

The main objective of the investment plan for the two quarters of 2014 was to continue commenced tasks, aiming at doubling the extraction capacity, involving the extension of the Mechanical Coal Processing Plant and expansion of the mining face, including the provision of new equipment. Currently, the MCPP witnesses final commissioning, and test runs of particular objects.

The plan for Q1 and Q2 2014 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 concerned investments in technical infrastructure, i.e. continuation of outward extension of the Mechanical Cal Processing Plant.

As regards purchasing machinery and equipment, the key investment are deliveries of equipment for the coal-ploughing complex No. 3 to enable mining of 250 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 concerned investments in new workings in the Bogdanka, Nadrybie, and Stefanów fields and continuation of the extension of the mine waste storage yard, including development of PTP2 conveyor's drive station and development of ZGOT-2 stacker's chassis.

The modernisation of 110/6 KV switching room and station facilities was also continued. The first half of 2014 saw the completion of acceptance procedures and handover for use of restructured sections of 110 kV GSTR overhead lines in Bogdanka. In addition, construction works in stage C covering the modernisation of 110 kV station were completed, and stage D was commenced, which covers the modernisation of fields 7, 8, and 9 and transformer 110/6 kV 16 MVA T-2.

In the first half of 2014, the Company continued the drilling of haulage gallery III for transporting excavated material from wall 8N, as well as the drilling of haulage gallery III/385 for transporting excavated material from field V in seam 391. The drilling of transmission gallery 1fB for developing pipelines of the central air conditioning system and the drilling of joining drift 2 in Nadrybie were commenced. Also the drilling of galleries for launching walls in fields I, II and IV (Bogdanka), and fields V and VI (Nadrybie), as well as in fields VII and VIII (Stefanów).

The total length of drilled roadway workings in the first half of 2014 amounted to 16,373.5 million. The reconstructions of galleries were performed in line with the assumed schedules. In total 1,811.5 million of roadway workings were drilled in the first half of 2014. Total expenses incurred for new galleries and modernisations of the existing ones amount to PLN 128,812,000, PLN 82,098,000 of which was earmarked for longwall workings.

Table 23 Selected items of investment outlays in the LW BOGDANKA Group [PLN '000]

Item	Performance H1 2014	Plans for 2014
DEVELOPMENT CAPEX	**126,245**	**385,781**
Extension of the Mechanical Coal Processing Plant, central air conditioning system, other		62,951
Other developmental investments, including:	76,810	322,830
purchase and assembly of panel complexes	50,950	247,259
purchase of machines, devices and ready goods	25,860	75,571
OPERATING CAPEX	**148,319**	**299,767**
New galleries and modernisation of the existing ones	128,812	238,651
Modernisation and renovation of the existing machines and devices	1,776	13,430
Environmental protection	4,615	11,610
Other operating investments	13,116	36,076
TOTAL LW BOGDANKA CAPEX	**274,564**	**685,548**
ŁĘCZYŃSKA ENERGETYKA	3,551	22,705
RG BOGDANKA	74	-
MR BOGDANKA	3	-
EkoTRANS BOGDANKA	0	-
TOTAL LW BOGDANKA GROUP CAPEX	**278,192**	**708,253**

5. THE LW BOGDANKA GROUP'S DEVELOPMENT STRATEGY

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.

Due to significant change in the market situation, influenced by such factors as: material drop in coal prices, large amount of coal stock in the Silesian mines and power plants, as well as governmental plans to restructure mining industry, the Company's Management Board commenced work on assumptions for the Strategy update.

6. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA S.A. REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR IN QUESTION, IN LIGHT OF THE RESULTS SET OUT IN THE INTERIM REPORT IN RELATION TO THE FORECAST RESULTS

The LW BOGDANKA Group did not publish financial results' forecasts for 2014.

7. 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

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

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

The financial results generated by the Group are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, the demand for electricity and heat energy, the level of inflation, the rate of unemployment, and changes in exchange rates, etc.

The financial position of the Group is dependent mainly on the position of the Parent, i.e. LW BOGDANKA S.A. In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Group may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the Parent results is reduced. The Parent's financial performance may also deteriorate if the existing taxes or charges (including the mining royalties) are raised or new taxes or charges on hard coal mining are introduced.

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

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

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

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

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

The levels of prices of raw materials for power production, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The current difficult political situation, resulting mainly 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 significant 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.

7.1.4 Risk associated with the imposition of coal excise tax

On 2 January 2012 the Excise Tax Act of 6 December 2008 came into force. Thereunder, coal products sold for heating purposes are taxed with excise duty. The Act referred to above and the relevant implementing regulations, despite providing for an extensive range of excise tax exemptions, have resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

The risk to the Company's operations is limited owing to the fact that LW BOGDANKA S.A. sells most of the produced coal to commercial power industry and the new domestic excise tax regulations provide for an extensive range of exemptions, including electrical power generation, co-generated electrical power and heat and other selected industry sectors, as well as individual coal buyers.

The Company mitigates the excise tax risk by providing training to the employees, co-operating with reputable tax advisors, by requesting tax authorities to issue individual tax rulings, by active participation in the legislation processes, by introducing in trade contracts provisions that enable the transfer of the potential excise tax burden to the buyer.

7.1.5 Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in finance costs of the Company and hence have an adverse effect on the Company's financial results (alternatively, a possible decrease in interest rates may cause a decrease in finance costs of the Company bringing a positive effect on its financial results). In the Group's assessment, the interest rate risk currently has a limited bearing on the financial standing, given a relatively low degree of financing the Group's assets with interest-bearing third party capital. This risk may increase significantly in the case of a considerable growth in debt financing which is related to the group's development strategy currently implemented (extension of the Stefanów Field, investments of Łęczyńska Energetyka).

7.1.6 Risk associated with changes in exchange rates

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

In order to secure the Company against foreign exchange risk, LW BOGDANKA S.A. concluded a forward exchange contract. The security covers 100% of the value of the liability under the agreement to purchase a wall ploughing system. As at the publication date of this Report three out of four purchase transactions in EUR have been settled. The last forward transaction shall account for EUR 8.32 m.

In February 2014 the Company concluded another agreement also paid for in EUR. Security is established for the performance of a EUR 39.75 million-worth agreement for the delivery and assembly of a ploughing system for low seam mining. The forward transaction was concluded on 24 March 2014 with the value date for the first quarter of 2015. The total value of the established security amounts to EUR 27.83 million.

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

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

At present, the LW BOGDANKA Group sees no threat as to the possibility to acquire additional financing in the form of debt for implementation of its investments, however due to the Company's indebtedness which has been increasing over last years, it is estimated that the possible costs of its acquisition might be higher than those currently incurred. The current interest-bearing debt (loan and the issued bonds of the total value of PLN 599,071,000) accounted for 25.45% of Company's equity and 15.14% of the balance-sheet total.

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

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

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale);

- methane hazard – methane category I (on a four-grade scale);
- water hazard – level I and II (on a three-grade scale);
- hazards connected with changing geological and mining conditions at the exploitation fronts.

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur costs, which could have an adverse effect on the financial results achieved by the Companies in the future. The Company secures necessary funds to cover expenses related to mining damage. The scope of mining damage in the case of LW BOGDANKA S.A. is relatively small, since extraction is performed under little urbanised area. The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the relatively low risk of a methane explosion (category 1 methane threat on a four-grade scale). Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on the LW BOGDANKA Group's operations include:

- the use of advanced and reliable mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- no major 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 the mine extracts hard coal;
- high qualifications of the personnel.

7.1.9 Risk of restrictive EU climate policy also with respect to the CO_2 emissions

The European Commission requires limiting the CO_2 emissions on the level of EU member states 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.

The European Commission is planning to introduce further requirements: cutting CO_2 emissions by 40% by 2030 and increasing the share of energy from renewable sources to 27%. The above requirements, unlike the current target of a 20% cut in CO_2 emissions by 2020 set for individual EU Member States, would be binding for the EU as a whole.

In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO_2 emissions. Limitation of the CO_2 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 CO_2 emissions for particular sectors. 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 CO_2 emissions.

The Group is also reviewing the risk of national or regional regulations being introduced that set new emission standards for the existing or new low-power combustion sources in households.

The Group is monitoring any amendments to the Energy Law or other acts that promote generating energy from renewable sources or support the system of producing electricity through high-efficiency co-generation, assessing their potential impact on the Group's operations.

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

There is a limited risk that the Polish power industry may be able to switch to a 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, the high levels of coal inventories remaining on coal heaps in the energy industry poses some risk. Such situation is a result, among other factors, of mild winter and a decrease in demand for energy, and may translate into a drop in the customers' demand in the upcoming time.

7.1.11 Risk of hostile takeover of the Group

As a result of its IPO on the Warsaw Stock Exchange, Lubelski Węgiel BOGDANKA S.A. has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the Company's share capital. In consequence LW BOGDANKA S.A. became a private entity, almost 100% shares of which can be currently subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to approx. 11.5 million tonnes of coal per year (in 2015), and consequently, the achievement of better results as well as technical and economic and financial 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. It is important to indicate to the investors the real value of shares both in relation to currently achieved results, and company's raw material potential and development perspective.

7.2 Risks directly associated with the Group's operations

7.2.1 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 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.

In June 2014, the Company obtained licence for mining in K-3 area located south from the current mining area "Puchaczów V", as well as an exploration licence for the "Ostrów" area. Further applications are being examined by the Minister of Environment.

7.2.2 Technical and technological risk

Extracting coal from underground seams is a complex process which is subject to strict technical and technological requirements. During such operations, various stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of the LW BOGDANKA Group, and therefore on the financial results achieved by it in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that the mine uses the longwall system. Extraction is currently conducted 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 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.

7.2.3 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 only by several producers in the world, and sometimes only by one, as is in the case of advanced powered longwall ploughing systems that enable reaching high extraction effectiveness in thin deposits.

As a result of the implemented investments referring 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 development strategy.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation). Such advanced solutions for mining industry are manufactured by only one company in the world. In 2012, LW BOGDANKA S.A. purchased the second longwall ploughing complex and in 2013 concluded an agreement for the delivery of the third one (Bogdanka-3), to be performed in 2014. In 2014, an agreement was concluded for the delivery of the fourth longwall ploughing system (Bogdanka-4) to replace the earlier planned coal-cutting system for low seams (no solutions that guarantee the capacity required by the Company). In addition to high costs of purchasing such equipment, there is a risk (related to costs) of difficulties in access to unique spare parts to ensure the operating continuity of the equipment, which may affect the costs of coal mining.

The risk of increased mining costs associated with the depth of mining will be growing. In 2015, mining of coal from seam 382 will end. Instead, mining of seam 391 will begin, which seam is located about 100 m below seam 382. As the depth increases, the difficulty of maintaining the workings (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs. Already in August 2014 mining will be terminated in the last wall in 382 seam in the Bogdanka field, and in November the first wall in seam 391 shall be launched instead.

7.2.4 Risk of IT systems malfunctioning

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

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

7.2.5 Key customer risk

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

As at the day of submitting the Report, the Group has signed contracts for the entire sales of coal for 2014, and has an agreement with Enea Wytwarzanie S.A. (Elektrownia Kozienice S.A.) which ensures a certain market for coal in the long-term perspective until 2025. The Company has stable contracts with GDF Suez Energia Polska S.A. – (Elektrownia Połaniec) and with PGNiG Termika S.A. (Żerań and Siekierki Heat and Power Stations in Warsaw), Energa Elektrownie Ostrołęka S.A., Zakłady Azotowe Puławy S.A. and EDF Paliwa Sp. z o.o. (formerly Energokrak, supplies to EDF Elektrownia Rybnik S.A.), which guarantee supplies of power coal for the next five years.

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

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

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

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

There is also a potential risk that as a result of investment delays, 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 Group mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

7.2.6 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 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 (especially KW 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.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in the LW BOGDANKA Group to industry and power production and forces the customers to invest in fume desulphurisation installations. Because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the produced coal is significantly limited.

The specific parameters of the coal produced by the Company provide it with a competitive advantage when supplying coal mainly to commercial power producers, whilst limiting however the possibility of selling to individual buyers due to the restricted capacity to produce thicker coal assortments.

7.2.7 Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Group's receivables in comparison to liabilities.

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

7.2.8 Risk of 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 construction work was completed. The Company holds lawful authorisations to use all construction facilities. In the last two facilities, machine and technology assembly works are completed and launch was initiated, commissioning procedures and partial test run of the installation have started. As at the day of submitting the Report, the installation is ready to start production of commercial coal (first tonnes of concentrate have already been produced). Production in material volumes will only be possible after the procedure of final commissioning, preceded by a test run, is formally completed. Before the investment in question is formally completed, the Company will continue to exploit coal deposits from the individual extraction fields (Bogdanka, Stefanów) in such a way so as to fully correlate the quality of the excavated output with the deadline for achieving full coal processing capacity by the Mechanical Coal Processing Plant. These actions are of great significance in terms of guaranteeing that the Company will meet its production and sales targets, as well as the quality parameters expected by the buyers and specified in the one-year and long-term contracts concluded with key energy sector customers.

7.2.8.1 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 in total approx. 67% of its employees (four trade union organisations operate at LW BOGDANKA, associating 66% of the employees). The strong position of the trade unions creates a situation in which there is a risk of the costs of remuneration increasing under negotiated wage agreements in future, which could adversely affect the financial results of the LW BOGDANKA Group mainly. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by the LW BOGDANKA Group.

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

7.2.8.2 Risk associated with retaining and attracting human resources for LW BOGDANKA S.A.

The LW BOGDANKA Group's demand for human resources results from its strategy. The Group plans to recruit staff only for positions essential from the point of view of operating a coal mine, chiefly for mining, mechanical and electrical departments, and the Mechanical Coal Processing Plant, where, due to the work schedule of brigades/departments, it is impossible to complement the staffing by employees of external companies (e.g. RG Bogdanka).

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

In relation to ongoing works on the amendment of the Company Collective Bargaining Agreement, considering the change in work organisation and remuneration, there is a risk of employment destabilisation consisting in increased number of work terminations by Company employees entitled to retirement benefits.

The fear (perhaps unjustified) of losing certain rights to retirement severance pay under rules applicable in the current provisions of the Company Collective Bargaining Agreement, anniversary award or other benefits, as well as the aversion to changes 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. These are especially valuable employees because of their knowledge and experience. Their value is high, both for the quality of work and for the process of training younger staff. Their sudden departure in a short period of time could disrupt the generational continuity which is being rebuilt, and thus the mild gradual staff turnover.

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

Cooperation with entities external to the Group involves external entities providing outsourcing services to the LW BOGDANKA Group, 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 the LW BOGDANKA Group by the employees of the LW BOGDANKA Group through third-party entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by the LW BOGDANKA Group.

In 2013, the Company established EkoTrans Bogdanka (10 April 2013), RG Bogdanka (11 September 2013), and MR Bogdanka in 2014 (17 April 2014), in order to improve its competitiveness with regard to outsourcing services rendered to LW BOGDANKA, and thus decreasing the costs of the Company's operations.

7.2.10 Key supplier risk

The specific nature of the LW BOGDANKA 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 occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under concluded agreements. This also applies to specialised providers of mining services, because due to a limited number of such providers on the Polish market, the Group may become dependent upon these entities.

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

7.2.11 Risk of unfavourable/inappropriate contractual terms being concluded

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

– rigorous legal and substantive supervision of the process of concluding agreements resulting from tender procedures according to the procedures of public tenders and others;

– training in the logistics of concluding contracts and market analysis and training in negotiations and trading, particularly at the international level.

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7.2.12 Risk of price fixing by the suppliers

The requirement to use in the LW BOGDANKA Group highly specialised products and services, as well as legal aspects to be met in order for such products and services to be deemed proper, carry a risk of price fixing. Therefore, there is a potential risk of fixing commercial terms that can be offered to the LW BOGDANKA Group by a group of suppliers. The following measures are taken in order to minimise the probability of this risk occurring and its impact:

- permanent market monitoring and acquiring new suppliers,
- periodic analysis of contract prices and researching new market trends,
- searching for replacement products.

7.3 Financial risk

7.3.1 Liquidity risk

Important factors in the assessment of insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In the case of the Group, cash at hand as at 30 June 2014 amounted to PLN 204,080,000. The current liquidity ratio for the Group amounted to 0.76, and quick liquidity ratio – 0.64. In the first half of 2014 net flows from operating activities generated by the LW BOGDANKA Group were 3.81% higher (as compared to the previous year). Therefore, as at the day of submitting the Report, there is no risk of the insolvency. To avoid any potential risks in future and to mitigate the risk related to the Group's liquidity, long- and short-term analyses and forecasts are prepared, allowing cash needs to be determined. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

Furthermore, in order to optimise cash management, a public procurement procedure has been conducted in the Parent concerning the provision of a banking service involving the granting to the Company of an overdraft loan credit facility in PLN up to the amount of PLN 150 million and maintaining that credit facility (agreement signed on 24 May 2014). As at 30 June 2014, the Group had an unutilised overdraft credit line (under the Agreement for a revolving overdraft credit facility) in the amount of PLN 131,957,000.

7.3.2 Insurance risk

The Group is exposed to insurance risk, both in a standard scope applicable to all entities conducting business operations, and in a scope typical for entities from mining 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 Group holds insurance policies covering such risks of loss and damage to underground property as: underground fire, explosion, rock burst, rock and gas outburst, underground flooding, with the highest compensation limit among Polish mining enterprises. The remaining Group's 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 its financial standing, results of its operations and the generated cash flow.

7.4 Risks associated with environmental protection

7.4.1 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. As the mining area will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (purchase of developed real properties). Therefore, in addition to the existing recovery work, the Group 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 Group.

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.

7.4.2 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 must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements - Best Available Techniques), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Group holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER) and a permit for operating a mining waste utilisation facility. For the settlement period 2013÷2020, the Group was offered gratuitous CO_2 emission allowance. Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of the environment which may apply to the LW BOGDANKA Group. The changes may lead to the necessity of adjusting the Group's operations to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to LW BOGDANKA or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the financial results. In order to lower the risk related to the provisions of the amended Mining Waste Act, in 2012 LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the operations in this respect have been adapted to the new regulatory requirements. In order to determine the risk associated with possible failure to meet emission standards after 2016, an analysis of pollution emission to the environment has been prepared for Łęczyńska Energetyka. It is the basis for determining the scope of the possible installation modernisation in order to limit the risk associated with the possibility of incurring penalties or increased fees for using the environment after 2016, with a simultaneous prospective necessity of an increased demand for heat energy.

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

7.4.3 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 2013 at the level of 5.06 million tonnes per year. 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). For the first half of 2014, the amount of waste reached 2,668,720 tonnes. As of 30 June 2014, approx. 58% of extraction waste was recycled, whereas the remaining part was neutralised 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 approx. 5 years of storing, the Group (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 multi-stage investment requires adopting 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 agreements to be made, as well as obtaining 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 study and plan. The land earmarked for the development of the facility is already included in the project of the Study of local spatial development for Puchaczów municipality has been prepared for adoption. 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 result.

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

7.4.4 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.

7.5 Risk associated with proceedings and legal environment

7.5.1 Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions. Regular amendments to tax regulations and rigorous sanction provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Tax returns submitted by the Company may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Submitted tax returns may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out within the Group as transactions of related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

In order to minimise the above risk, the Group monitors on a regular basis any amendments to the tax regulations and conducts appropriate training policy so that its employees maintain highest possible competence within this area. Moreover, any new issues are analysed by the Group by comparing them with previous tax interpretations and judicial decisions within similar scope. Additionally, the Group uses help of consulting companies. The Group has also a Transfer Prices Policy which determines basic terms and conditions for shaping prices for transactions concluded within the Group.

Despite all actions taken, it is not possible to eliminate a risk entirely, also because of ambiguity in the interpretations of tax law, yet in the opinion of the Management Board of the Group the risk is materially limited.

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

In accordance with the strategy of Lubelski Węgiel BOGDANKA S.A., the value of underground workings and the infrastructure located in these workings have not been included in its real property tax returns for tax assessment purposes.

In 2013 and in the first quarter of 2014, fiscal proceedings were pending against the Company in order to determine the amount of real property tax due for the period between 2004 and 2012, instigated by the Heads of Puchaczów, Cyców and Ludwin communes.

In their decisions specifying the amount of real property tax due from the Company with regard to the period between 2003 and 2007, the authorities of the first instance determined that real property tax shall also apply to underground mining workings, including the infrastructure located within those workings. However, the decisions specifying the amount of real property tax due from the Company for 2008, issued both by the authorities of the first instance and the authority of the second instance [Local Government Appellate Court in Lublin], determined that real property tax was only due for the following infrastructure components located in underground mining workings: casing of underground works, pipelines, slackline cableway routes and floor-mounted railways, which means that the real property tax base fails to include the value of underground mining workings in terms of the cost of their drilling. The decisions issued by the Local Government Appellate Court regarding the real property tax due for 2008 were challenged by the Company in full and submitted for a ruling to the Provincial Administrative Court in Lublin. In the rulings of 16 July 2014, referring to decisions issued by the Heads of the Communes of Puchaczów and Cyców for 2008, the Provincial Administrative Court in Lublin dismissed the complaints filed by the Company, however it applied different (from the one applied by authorities of 1st and 2nd instance) legal classification of infrastructure elements located in underground galleries, classifying them as building structures in the form of technical networks. Written justifications of the above rulings of the Provincial Administrative Court in Lublin have not been delivered to the Company yet.

The position of fiscal authorities stated in their decisions concerning the real property tax for 2008 clearly reflects the unequivocal position of the Polish Constitutional Tribunal expressed in its ruling of 13 September 2011 in Case No. P 33/09 and the subsequent position of administrative courts based thereon. In the ruling referred to above the Constitutional Tribunal found that under the applicable provisions of law, imposing real property tax on the value of underground workings is, from the constitutional perspective, unacceptable. Underground workings are not building facilities (building equipment) within the meaning of the Polish Building Law, but space created as a result of mining and, in consequence, may not be classified as structures within the meaning of the Polish Building Law. Therefore, underground workings are not subject to real property tax either separately (i.e. as workings in the physical sense), or in combination with the infrastructure located in them (i.e. as workings defined comprehensively).

The position expressed in the above ruling by the Constitutional Tribunal and the related position of administrative courts questions the possibility to calculate real property tax on the value of underground workings in terms of the cost of their drilling. At the same time, the Constitutional Tribunal did not rule out the possibility of charging real property tax on structures and building equipment located in underground mining workings, with the proviso that real property tax on such structures and equipment could only be imposed if certain conditions, specified in detail in the ruling, were met.

Taking into account the position of the Tribunal expressed in the ruling referred to above and the position expressed by the fiscal authorities (Heads of Communes and the Local Government Appellate Court in Lublin) in their decisions regarding the Company's real property tax liabilities for 2008, as well as position of the Provincial Administrative Court in Lublin included in the above rulings, it should be stated that if this position prevails in the future, the risk of negative financial consequences related to the pending real property tax proceedings has been significantly reduced compared to the scale of repercussions resulting from the decisions of the authorities of the first instance concerning the real property tax for the period between 2003 and 2007.

7.5.3 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 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 another qualification of this type of costs for the purposes of corporate persons income tax than the one performed, 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 Non-Current Assets Classification. http://www.lw.com.pl

7.5.4 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 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 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.

In order to minimise the above risk, the Group permanently uses services of legal advisors and consulting companies, as well as seeks opinion from various authorities specialising in the subject of the analysed issue. Wherever it applies, the Group applies for issuing binding interpretations of law. Despite all actions taken, it is not possible to eliminate a risk entirely, yet in the opinion of the Management Board of the Group the risk is materially limited.

7.5.5 Risk of violating the stock exchange disclosure requirements

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

7.5.6 Integrated system of enterprise risk management — a summary

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

The Company presents information and reports on the results of ERM implementation and operation to the Supervisory Board and the Audit Committee. In subsequent periods, work is planned to further adapt the system to the needs of the Company to increase its role and effectiveness, based on the experience and performance of the system to date.

8. PROCEEDINGS PENDING BEFORE COURT, RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR PUBLIC ADMINISTRATION AUTHORITY

As of the date of preparing this Directors' Report of the LW BOGDANKA Group for the first half of 2014, LW BOGDANKA S.A. was not a party to any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority, concerning:

- liabilities or claims of LW BOGDANKA S.A. 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.

9. RELATED PARTY TRANSACTIONS

In the first half of 2014, 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 22 of the Abridged Interim Financial Statements of LW BOGDANKA S.A. for the period of 6 months ended on 30 June 2014.

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

In the period from 1 January 2014 to 30 June 2014, 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.

11. 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

11.1 Conclusion of a significant agreement with mBank S. A.

On 21 May 2014, the Management Board of Lubelski Węgiel Bogdanka S.A. with registered office in Bogdanka concluded an agreement for a revolving overdraft credit facility to be granted by mBank Spółka Akcyjna with registered office in Warsaw, ul. Senatorska 18.

Funds from the credit facility will finance the Company's day-to-day business activities. The credit facility will make it possible for the Company to secure its financial liquidity at a level provided for in the Company's strategy.

The credit facility amounts to PLN 150,000,000 (one hundred and fifty million zlotys). The credit facility was granted for a period of 24 months following the date on which the funds are made available to the Borrower. The term of the agreement may be extended.

Other key terms and conditions of the credit facility agreement:

- interest: fixed bank margin in the credit period increased by WIBOR 1M,

- bank margin: 0.3497% p.a.,

- interest payment schedule: the last day of a calendar month.

Other terms and conditions of the Agreement do not differ from the standard provisions of credit facility agreements.

The Company published this information in Current Report No. 9/2014 of 22 May 2014.

11.2 Adopting resolution on payment of dividend at LW Bogdanka S.A.

On 12 June 2014, the Annual General Shareholders Meeting adopted a resolution on distribution of net profit for 2013.

It was decided by the General Shareholders Meeting to distribute the net profit generated by the Company in 2013 in the amount of PLN 326,529,845.95 (three hundred and twenty-six million five hundred and twenty-nine thousand eight hundred and forty-five zlotys 95/100) as follows:

1. allocate PLN 197,278,822.00 (one hundred and ninety-seven million two hundred and seventy-eight thousand eight hundred and twenty-two zlotys 00/100) for a dividend, i.e. 5.80 (five zlotys 80/100) per share.

2. allocate the remaining amount, i.e. PLN 129,251,023.95 (one hundred and twenty-nine million two hundred and fifty-one thousand and twenty-three zlotys 95/100) for the Company's reserve capital.

The above proposal is compliant with the dividend policy for 2013-2015 announced by the Company.

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

Further, the General Shareholders Meeting scheduled the dividend date for 11 September 2014, and the dividend payment date for 2 October 2014.

In light of the above, the period between the dividend date and the dividend payment date does not exceed 15 business days and therefore complies with Rule IV.6 of the Code of Best Practice for WSE Listed Companies, which is attached as an Appendix to Resolution No. 19/1307/2012 of the WSE Board of 21 November 2012.

The Company published this information in Current Report No. 10/2014 of 12 June 2014.

11.3 Conclusion of an agreement with regard to bond issue programme

On 30 June 2014, the Management Board of Lubelski Węgiel Bogdanka S.A. concluded an agreement with regard to bond issue programme with POLSKA KASA OPIEKI SPÓŁKA AKCYJNA and BANK GOSPODARSTWA KRAJOWEGO.

Under the Agreement, the Company intends to establish a bond issue programme which provides for bond issue by the Company in many series, pursuant to the provisions of the Agreement, up to the amount of PLN 600,000,000, which is the maximum allowed total amount of issued and not redeemed bonds.

The amount under the Programme is divided into two tranches: Tranche 1 and Tranche 2. Each tranche shall not exceed the amount of PLN 300,000,000.

The aim for bond issue shall be obtaining funds for refinancing current debts, financing current Company operations and satisfying its investment needs.

The Banks intend to assume the obligation to acquire the bonds issued under the Program and to act during the issue as the guarantor, the depositary, the sub-depositary, the issue agent, the paying agent, the paying sub-agent and the documentation agent.

The first issue under Tranche 1 shall be performed no later than on 30 June 2015, and under Tranche 2 - no later than on 30 June 2016.

The term of the Programme begins on the day of signing the Agreement and ends: for Tranche 1 - on 31 December 2019, for Tranche 2 – on 31 December 2020.

The interest rate is variable and is determined annually on the basis of WIBOR (3M), increased by a fixed margin.

The Company shall establish security in the form of: claim assignment agreement regarding an agreement with one of the Company's clients, 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 indicated bank accounts of the Company.

Bonds shall not be offered in the form of public offering as defined in the Act on Public Offering.

Each issue of particular bond series will be announced by the Company in Current Reports.

This was announced by the Company in Current Report No. 13/2014 of 30 June 2014.

11.4 Acquisition of bonds by a Bank under a Bond Issue Programme

On 1 August 2014, Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego acquired jointly two series of bonds, issued on 1 August 2014 within the Bond Issue Programme established under the Agreement with the Guarantors, announced by the Company in Current Report No. 13/2014 of 30 June 2014.

In line with the requirements set out in the Programme, the Guarantors jointly acquired 300 registered series LWB01A300615 bonds as Tranche 1 with a nominal value of PLN 1,000,000 (one million zlotys) each, and jointly acquired 100 registered series LWB02A300615 bonds as Tranche 2 with a nominal value of PLN 1,000,000 (one million zlotys) each. The aggregate amount of bonds acquired by the Guarantors is PLN 400,000,000.

Redemption date for the series LWB01A300615 bonds and the series LWB02A300615 bonds is scheduled for 30 June 2015. The Company may issue further series of bonds within a given tranche in order to roll over the previous issue of this tranche.

The interest rate of both series is based on WIBOR 3M, increased by a fixed margin.

The aim for bond issue is obtaining funds for refinancing current debts, financing current Company operations and satisfying its investment needs.

The value of financial liabilities disclosed in the Statement of Financial Position of the Company as at 31 March 2014 amounts to PLN 571,000,000. The Company's financial liabilities are maintained at a level adequate for the business activities and financial security, and comply with the assumptions provided for in the Strategy for 2013-2020.

The Company established security in the form of: claim assignment agreement regarding an agreement with one of the Company's clients, 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 indicated bank accounts of the Company.

This was announced by the Company in Current Report No. 15/2014 of 1 August 2014.

11.5 Conclusion of significant agreements

11.5.1 Conclusion of an Annex to the significant agreement with PGNIG Termika S.A.

On 24 April 2014, the Management Board of LW Bogdanka S.A. with registered office in Bogdanka announced that it concluded on 24 April 2014 an Annex to the Agreement on Sale/Purchase of Power Coal with PGNIG Termika S.A. with registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15. The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A.

The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013, 14/2013 of 28 May 2013 and 28/2013 of 5 July 2013.

As a result of concluding the Annex, the condition subsequent has been amended and shall read as follows:

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

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. 6/2014 of 24 April 2014.

11.5.2 Conclusion of an Annex to the significant agreement with PGNIG Termika S.A.

On 31 July 2014, Management Board of LW Bogdanka S.A. with registered office in Bogdanka concluded an Annex to the Agreement on Sale/Purchase of Power Coal with PGNIG Termika S.A. with registered office in Warsaw, 03-216 Warsaw, ul. Modlińska 15. The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A.

The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013, 14/2013 of 28 May 2013, 28/2013 of 5 July 2013 and 6/2014 of 24 April 2014.

As a result of concluding the Annex, the condition subsequent has been amended and reads as follows:

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

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 Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 14/2014 of 31 July 2014.

11.6 Employment at LW Bogdanka S.A.

Employment at the Group as at 30 June 2013 and 2014 and as at 31 March 2014 is presented in the table below:

Table 24 Employment at the LW Bogdanka Group as at 30 June 2013, 31 March 2014 and 30 June 2014

Employment	30 Jun. 2013	31 Mar. 2014	30 Jun. 2014	Dynamics H1 2014/ H1 2013 [%]	Dynamics H1 2014/ Q1 2014 [%]
Total workers	3,861	4,191	4,260	10.33%	1.65%
Underground workers	2,919	3,234	3,308	13.33%	2.29%
Surface workers	942	9,57	952	1.06%	0.52%
Full-time employees underground	341	352	353	3.52%	0.28%
Full-time employees on the surface	295	298	307	4.07%	3.02%
Total underground	3,260	3,586	3,661	12.30%	2.09%
Total LW Bogdanka staff	**4,497**	**4,841**	**4,920**	**9.41%**	**1.63%**
Total RG Bogdanka staff	**-**	**547**	**566**	**-**	**3.47%**
Total MR Bogdanka staff	**-**	**-**	**37**	**-**	**-**
Total EkoTrans Bogdanka staff	**-**	**2**	**2**	**-**	**-**
Total Łęczyńska Energetyka staff	**119**	**115**	**115**	**0.27%**	**-**
Total Group staff	**4,616**	**5,505**	**5,640**	**19.25%**	**2.45%**

Employment in the Group in the second quarter of 2014 increased by 135 persons, i.e. by 2.45% in relation to the employment at the end of the first quarter of 2014. Employment in the first half of 2014 increased by 1,024 persons, i.e. by 19.25% in relation to the employment level at the end of the first half of 2013. To the significant increase in employment contributed the fact of expanding the Group by RG Bogdanka which performed the majority of tasks commissioned to date by external entities.

In the first quarter of 2014, 158 persons were employed at LW BOGDANKA S.A., in the second quarter – 191 persons, in total 349 employees. At the same time, in the first quarter of 2014, 85 employees left the Company, and in the second quarter – 112 employees. In total 197 employees left the Company in the first half of 2014 (mainly due to retirement and pensions).

The increase in employment is related to the Company's assumptions with respect to the development strategy, implementation of which required creation of a new extraction department and supplementing the staff of the extended Mechanical Coal Processing Plant.

12. LIST OF TABLES

SIGNATURES OF MANAGEMENT BOARD MEMBERS

Name and surname	Position	Date	Signature
Zbigniew Stopa	President of the Management Board	27 Aug. 2014	[*signature*]
Roger de Bazelaire	Vice-President of the Management Board, Economic and Financial Affairs	27 Aug. 2014	[*signature*]
Waldemar Bernaciak	Vice-President of the Management Board, Trade and Logistics	27 Aug. 2014	absent
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments	27 Aug. 2014	[*signature*]

Bogdanka, 27 August 2014