DIRECTORS' REPORT ON OPERATIONS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2014 to 31 December 2014

BOGDANKA, MARCH 2015

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

Structure and changes in the structure of Lubelski Węgiel BOGDANKA Group

As at 12 March 2015, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Wegiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent"), Łęczyńska Energetyka Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"), EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS"), RG BOGDANKA Sp. z o.o. (hereinafter referred to as "RG Bogdanka") and MR Bogdanka Sp. z o.o. (hereinafter referred to as "MR Bogdanka")as the Subsidiaries.

As at the date of submitting this Report, i.e. 12 March 2015, LW BOGDANKA 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.

Information on the entities of the LW BOGDANKA Group

The Subsidiaries: Łęczyńska Energetyka, EkoTRANS Bogdanka, RG Bogdanka and MR Bogdanka were included in the annual consolidated financial statements of the LW BOGDANKA Group for 2014 (hereinafter referred to as the Annual Consolidated Financial Statements) by the full consolidation method.

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, www.ri.lw.com.pl
E-mail:	bogdanka@lw.com.pl
Industry Identification Number (REGON):	430309210
Tax Reg. No. (NIP):	713-000-57-84

Business activities

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

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA 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 supplementary activity is the sales of 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.

Subsidiaries

A) Łęczyńska Energetyka sp. z o.o.

Address:	Bogdanka, 21-013 Puchaczów, Lublin Province
Tel.	+48 81 443 11 02, +48 81 462 55 53
Fax:	+48 81 443 11 01
Website:	www.lebog.com.pl
E-mail:	biuro@lebog.com.pl
Industry Identification Number (REGON):	004164490
Tax Reg. No. (NIP):	713-020-71-92

Share capital amounts to PLN 82,677,000 divided into 82,677 shares of PLN 1,000.

Shareholding structure:

- 88.697% LW BOGDANKA
- 11.297% Łęczna Municipality
- 0.006% Puchaczów Commune.

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

Łęczyńska Energetyka Sp. z o.o. provides services to the mine involving supplying heat energy and conducts water/wastewater management. Moreover, the company provides heat energy to third parties such as residential estates and other facilities located in Łęczna.

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

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

Shareholding structure: 100% LW BOGDANKA.

EkoTRANS Bogdanka 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 divided into 10,000 shares of PLN 50.

Shareholding structure: 100% LW BOGDANKA.

The business activity of the company consists in providing of services, deliveries and construction works to LW BOGDANKA.

C) 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 divided into 20,000 shares of PLN 50.

Shareholding structure: 100% LW BOGDANKA.

The business activity of the company consists in providing of repair and regeneration services and manufacturing steel structures.

1.1 Organisational and capital affiliations of the Group

In 2014 Lubelski Węgiel BOGDANKA had capital interests in the following business entities:

Table 1 Capital interests of the Company

Company's business name	Company's share in the share capital		Share capital	Core activities
	31 Dec. 2013	31 Dec. 2014 and 12 Mar. 2015		
Łęczyńska Energetyka Sp. z o.o. in Bogdanka	88.70% (73,332 shares)	88.70% (73,332 shares)	PLN 82,677,000 divided into 82,677 shares of PLN 1,000	producing heat energy, refurbishing, maintaining and assembling of power production equipment, producing drinking and industrial water
EkoTRANS Bogdanka Sp. z o.o.	100% (100 shares)	100.00% (100 shares)	PLN 100,000 divided into 100 shares of PLN 1,000	complex transport organisation and recovery of spoil arising during coal-associated shale washing and cleaning
RG BOGDANKA Sp. z o.o.	100% (10,000 shares)	100% (10,000 shares)	PLN 500,000 divided into 10,000 shares of PLN 50	services, deliveries and mining works for LW Bogdanka
MR BOGDANKA Sp. z o.o.	0% (0 shares)	100% (20,000 shares)	PLN 1,000,000 divided into 20,000 shares of PLN 50	repair and regeneration services and manufacture of steel structures

1.2 Changes in basic management rules of LW BOGDANKA and the LW BOGDANKA Group

In order to make the rules of management of LW BOGDANKA more precise, the following steps were taken in 2014:

1. An Abuse Prevention Policy and an Abuse Risk Management Policy have been implemented at LW BOGDANKA;
2. Principles of preparation and conduct of public tender procedures have been introduced;
3. Rules for awards of contracts to which the provisions of the Public Procurement Law do not apply have been specified;
4. Rules for update of the Key Projects list have been introduced at the Bogdanka Group;
5. Rules for Project Categorization were introduced at the Bogdanka Group;
6. Project Management Methods were introduced at the Bogdanka Group;
7. New Ceramic Sales Rules and Sales Manager Bonus Rules were introduced at the Building Ceramics Sales Department;
8. The "Procedure to follow when repairing damages caused by operation of the mining facility" was introduced;
9. A reviewed "Corporate Social Business Responsibility Strategy for 2014-2017" for LW BOGDANKA was introduced;
10. Guidelines for preparation and circulation of documents submitted at Management Board Meetings were introduced;
11. An amended version of the Ethics Code of the Bogdanka Group was introduced;

The update of the currently applicable documents and the introduction of new ones are aimed at implementation of the following assumptions: increase of the Company's transparency, introduction of a project management system, facilitation of the cost control process, and optimisation of Company's procurement process.

1.3 Branches of the Group companies

Lubelski Węgiel BOGDANKA and the subsidiary do not have branches (plants).

2. INFORMATION ON SIGNIFICANT AGREEMENTS

LW BOGDANKA Group Companies have no information about significant agreements concluded in 2014 between the shareholders. All significant agreements concluded by the LW BOGDANKA Group in 2014 and after the balance-sheet date are described below.

In 2014 and after the balance-sheet date, the Subsidiaries did not conclude any agreements that would be significant for the business of the LW BOGDANKA Group.

2.1 Trade agreements

Conclusion of an Annex and Significant Agreements with ENEA Wytwarzanie S.A.

On 15 January 2014 LW BOGDANKA concluded with ENEA Wytwarzanie S.A. with registered office in Świerże Górne, 26-900 Kozienice 1:

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

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

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

The Annual Agreement was referred to in Current Reports No. 5/2010 of 5 March 2010, No. 44/2010 of 20 December 2010, No. 31/2011 of 27 December 2011, No. 3/2013 of 15 January 2013, and No. 9/2013 of 29 March 2013.

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

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

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

As a result of concluding the annex and the above mentioned agreements, the net value of the entire Long-Term Agreement currently amounts to PLN 10.677 million net.

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

Other terms of the Annual Agreements do not differ from the market standards applied in agreements of this type.

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

Conclusion of an Annex to the Significant Agreement with EDF Paliwa Sp. z o.o.

On 31 March 2014, LW BOGDANKA signed an annex to the Long-Term Agreement for the Sale of Power Coal of 19 July 2011 concluded with EDF Paliwa Sp. z o.o. (former Energokrak Sp. z o.o.) with registered office at ul. Ciepłownicza 1, 31-587 Krakow. The Agreement was described in Current Report No. 21/2011 of 19 July 2011, Current Report No. 42/2012 of 1 August 2012 and Current Report No. 37/2013 of 31 October 2013.

As a result of concluding the Annex, the Parties:

- extended the term of the Agreement until 31 December 2017 (previously 31 December 2016),

- specified the terms and conditions of supplies between 2014 and 2017 (including the quantitative volumes and rules for establishing supply prices),

- established the supply price for the first half of 2015.

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

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

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

Conclusion of Annexes to the Significant Agreement with PGNIG Termika S.A.

LW BOGDANKA concluded Annexes 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 Company announced the conclusion of the Annex in Current Report No. 6/2014 of 24 April 2014. As a result, the condition subsequent was amended to read as follows:

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

The Company announced the conclusion of the Annex in Current Report No. 14/2014 of 31 July 2014. As a result, the condition subsequent was amended and reads as follows:

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

The Company announced the conclusion of the Annex in Current Report No. 17/2014 of 25 September 2014. As a result, the condition subsequent was amended and reads as follows:

a) In the event that the supply price for 2015 is not established by 15 November 2014, the Agreement is automatically terminated as at 31 December 2014.

In Current Report No. 19/2014 of 14 November 2014, the Company announced the conclusion of the concerning the conditions of supplies in 2015. Therefore, the condition subsequent referred to in Current Report No. 17/2014 will not apply. The condition in question reads as follows:

"In the event that the supply price for 2015 is not established by 15 November 2014, the Agreement is automatically terminated as at 31 December 2014."

As a result of concluding the Annex, the net value of the entire Long-Term Agreement until 31 December 2015 amounts to PLN 949.06 million.

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, 6/2014 of 24 April 2014, 14/2014 of 31 July 2014 and 17/2014 of 25 September 2014, 19/2014 of 14 November 2014.

Other terms and conditions of the Agreement remained 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.

Conclusion of an Annex to the Significant Agreement with Grupa Azoty Zakłady Azotowe Puławy S.A.

On 17 December 2014, LW BOGDANKA signed an Annex to the Long-Term Agreement on the Sale of Power Coal of 8 January 2009, concluded between the Company and Grupa Azoty Zakłady Azotowe Puławy S.A. with registered office in Puławy. The Agreement was referred to in Current Reports Nos. 29/2009 of 25 November 2009, 26/2011 of 5 December 2011, 55/2012 of 28 December 2012 and 21/2013 of 10 June 2013.

The subject matter of the Agreement is the supply-sale of power coal to Zakłady Azotowe Puławy S.A.

The Annex specifies the conditions of power coal supplies (volume and price) in 2015.

As a result of concluding the Annex, the value of the Agreement currently amounts to (without regard to possible increases, deviations and tolerance) a total of PLN 910 million net (i.e. 13.5% less than in Report No. 21/2013).

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

The criterion for deeming the 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. 20/2014 of 17 December 2014.

Conclusion of an Annex to the Significant Agreement with GDF Suez Energia Polska S.A.

On 17 December 2014, LW Bogdanka concluded an annex to Agreement No. 3/W/2012 on the sale of power coal between the Company and GDF Suez Energia Polska S.A. with registered office in Zawada 26, 28-230 Połaniec. The Agreement was referred to in Current Reports Nos. 41/2012 of 12 July 2012, 31/2013 of 30 August 2013, 38/2013 of 31 October 2013, and 40/2013 of 18 November 2013.

As a result of concluding the Annex, the term of the agreement shall be extended by 31 December 2019 (previously 31 December 2018), therefore the Agreement provides for the supplies of power coal in 2013-2019. The Annex specifies the terms and conditions of supplies of power coal for the purposes of the Buyer in 2014-2019.

The value of the entire Agreement after the Annex has been concluded amounts to about PLN 3.313 billion net, as per current prices, and is higher by 16.3% than the value published in Current Report No. 40/2013 of 18 November 2013.

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

If until 31 August 2016 the Parties fail to conclude an annex to the Agreement setting the price of coal supplies for 2019, the Agreement is terminated with effect at the end of a period, for which the Parties have set the price according to the provisions of the Agreement.

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

The criterion for deeming the 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. 21/2014 of 17 December 2014.

Conclusion of an Annex to the Significant Agreement with ENERGA Elektrownie Ostrołęka S.A.

On 30 December 2014, LW Bogdanka signed an Annex to Long-Term Agreement on the Sale of Power Coal No. 1456/W/2010 with ENERGA Elektrownie Ostrołęka S.A. with registered office in Ostrołęka at ul. Elektryczna 5. The Agreement was the subject of Current Reports Nos. 43/2010 of 14 December 2010, 32/2011 of 28 December 2011, 29/2012 of 29 May 2012, and 41/2013 of 19 November 2013.

As a result of concluding the Annex, the Parties agreed on the terms and conditions of supplies in 2015.

In light of the above, the value of the entire Agreement, in effect from 1 January 2011 to 31 December 2015, changes into about PLN 1.141 million net (i.e. by 4.25% less than the value indicated in the Current Report No. 41/2013).

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

The criterion for deeming the concluded Agreement significant is that it exceeds 10% of the value of the Company's equity.

This was announced by the Company in Current Report No. 23/2014 of 30 December 2014.

2.2 Other agreements relevant to the Group's operation

Conclusion of a Significant Agreement with mBank S.A.

On 21 May 2014, LW BOGDANKA S.A. concluded an agreement for a revolving overdraft credit facility with mBank Spółka Akcyjna with registered office in Warsaw at 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 (in words: 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 do not differ from the standard provisions of credit agreements.

This was announced by the Company in Current Report No. 9/2014 of 22 May 2014.

Conclusion of an Agreement with Regard to the Bond Issue Program

On 30 June 2014, LW BOGDANKA concluded with regard to bond issue program with Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego ("Banks") an agreement on the bond issue programme ("Agreement").

Under the Agreement, the Company intends to establish a bond issue program ("Program") 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 of the Program is divided into two Tranches: Tranche 1 and Tranche 2. Each tranche shall amount up to the amount of PLN 300,000,000.

The aim for bond issue shall be obtaining funds for refinancing the existing debt, 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, under Tranche 2 – no later than on 30 June 2016.

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

The interest rate of both series is variable and established each year based on relevant 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 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 Polish Act on Public Offering.

Each issue of particular bond series will be announced by the Company in current reports.

The Company published this information in Current Report No. 13/2014 of 30 June 2014.

Conclusion of an Agreement with Korporacja Gwarecka S.A.

On 27 January 2015, LW BOGDANKA and Korporacja Gwarecka S.A. concluded an agreement concerning the performance of works at the Company connected with production, extraction, mechanical processing, quality control and shipping of hard coal, conducting preparatory works, maintenance and renovation works and other works, specified in the description of the subject matter of the order, necessary for the performance of the above-mentioned works at Lubelski Węgiel BOGDANKA on Saturdays, Sundays and holidays which are official holidays within the period of 12 months from 1 February 2015 to 31 January 2016.

The maximum value of the agreement may amount to approx. PLN 189.34 million net.

The maximum remuneration specified in the previous sentence was calculated assuming the maximum total number of work days and full scope of services covered by the contract. For the avoidance of doubt, the Parties mutually agreed that the Contractor shall be entitled to remuneration only for actually worked individual work days. Regardless of the above, during the performance of the contract, the Ordering Party reserved the right to unilaterally limit the scope and number of individual services, without any negative consequences to the Ordering Party, in particular without the requirement to pay any remuneration or compensation to the Contractor.

The Agreement does not provide for a condition, or a time-limit.

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

The Company did not announce the conclusion of the Agreement in a current report, because the value of the Agreement does not exceed 10% of the Company's equity, and the information does not qualify as confidential information under the Act on Trading in Financial Instruments.

Conclusion of an Agreement with Caterpillar Global Mining Europe GmbH for the Supply of Another Longwall Ploughing System

On 17 February 2014, the Management Board of LW BOGDANKA with registered office in Bogdanka entered into an agreement with Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lünen, Germany, for the supply of factory-new longwall ploughing system for low seam mining, designed for operation in underground mining plants extracting hard coal from places under risk of methane and coal dust explosion; complete and ready for assembly, and afterwards launch and start coal extraction; with software necessary for correct system operation.

The total value of the Agreement (the price of the ploughing system) amounts to EUR 39,750,000 net (thirty-nine million seven hundred and fifty thousand euros 00/100).

The time limit for the delivery – 2014

The equivalent of EUR 39.75 million calculated at the average exchange rate announced by the National Bank of Poland on the date of concluding the Agreement (4.1530) amounts to PLN 165.08.

The Company did not publish the information on concluding the Agreement in a Current Report, since the Agreement value does not exceed 10% of the Company equity, and the information is not to be deemed confidential within the meaning of the Act on Trading Financial Instruments.

2.3 Transactions with related entities

In 2014 the Company and its Subsidiaries did not conclude significant transactions with related entities which would be individually or jointly significant and would be concluded on a basis other than an arm's length basis.

In 2014 the following general agreements concluded by LW BOGDANKA and Łęczyńska Energetyka were in effect:

- heat energy supplies,

- water supplies and sewage disposal, maintenance services and other,
- sale of power coal and electrical energy,
- lease, rental and lending for use agreements,
- heating of inlet air on shaft 2.2,
- service and maintenance supervision,
- sale of a section of heat distribution network,
- reconstruction of premises in Stefanów,
- provision of investor supervision for the construction of the Water Treatment Station in Bogdanka.

In 2014 the following general agreements concluded by LW BOGDANKA and RG BOGDANKA were in effect:

- performance of mining works in crosscut E-1 on level 960 and reconstruction of a section of the southern bypass on level 960;
- reconstruction of a section of the R2U bypass;
- reconstruction of the passenger station at the Bogdanka Field;
- preparation of a record and register of harmful agents;
- performance of works in LW BOGDANKA mine,
- providing explosion works,
- lease, rental and lending for use agreements,
- regeneration of used rollers.

In 2014 the following agreements concluded by LW BOGDANKA and MR BOGDANKA were in effect:

- delivery of elements of steel structures of adventitious equipment;
- delivery of rolling stock units;
- provision of services in the mechanical departments of machine operation underground;
- performance of works at the LW BOGDANKA mine;
- supply of energy to the workshop-storage building;
- repairs of machines and equipment, and their subassemblies;
- delivery of casing pipes and connectors;
- construction and delivery of a coal winning loader under the TU 5fN, including assembly;
- performance of fitting and welding works;
- repairs of transport units;
- contracts for delivery of dwangs and spare parts;
- lease, rental, and lending for use.

In 2014 the following agreements concluded by LW BOGDANKA and EKOTRANS BOGDANKA were in effect:

- disposal of non-dangerous waste (waste rock),
- lease, rental and lending for use agreements.

For more information please refer to the Company's Financial Statements, note 36.

3. FINANCIAL AND ECONOMIC SITUATION OF THE LW BOGDANKA GROUP

3.1 Basis of preparation of the Annual Consolidated Financial Statements

The consolidated financial statements of the LW BOGDANKA Group for the financial year from 1 January 2014 to 31 December 2014 were drawn up on the basis of the International Financial Reporting Standards and related interpretations announced in Regulations of the European Commission.

The consolidated financial statements were prepared according to the historical cost principle, with the exception of derivative financial instruments measured at fair value and share-based payments, including the valuation at fair value of certain components of property, plant and equipment in connection with assuming fair value as a deemed cost, which was carried out as at 1 January 2005.

The consolidated financial statements were prepared using the same accounting principles for the current and comparative periods.

3.2 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 situation is stable. Its financial performance, generated cash flows and cash funds confirm that the Group's financial position is good. The Parent monitors its ratios and cash levels on an ongoing basis to keep them optimal (in accordance with the strategy of the Parent). The Group has ensured itself access to debt financing for the next 3-5 years.

Works are consistently conducted to optimise the mining process (in terms of the technologies employed) and, simultaneously, is implementing a cost reduction program (to trim down the coal extraction unit cost). Works to prepare new excavations for operational exploitation are carried out in order to ensure the continuity of extraction. The Parent will soon finalise an investment program in accordance with the double the output Strategy. All works (including new excavation planning, extraction and sale of commercial coal) take into account existing and future market risks (a possible decline in demand for power coal and in its price). Global coal prices are monitored on an ongoing basis.

The LW BOGDANKA Group pays its liabilities when due. The Group effectively manages its financial resources and, at the same time, deposits free funds with banks (for durations and in amounts determined on the basis of in-house financial forecasts). As at the date of preparation of this information the Group discerns no threats that could deteriorate its ability to pay its liabilities in the future.

In the light of a significant change in the market situation, the Parent's Management Board has approved new assumptions in order to update its strategy announced on 3 June 2013 (for more details please refer to section 4.1 of the Report).

3.3 Production, sale and inventories of coal

In the fourth quarter of 2014, the production of commercial coal in the Parent increased by nearly 22% compared to the same period of 2013, while four quarters of 2014 saw an increase in production by 10.15% compared to the same period of 2013.

Table 2 Commercial coal production by LW BOGDANKA for Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013 ['000 tonnes]

2014	2013	2014	2013	Change 2014/2013	
Q4		4 Qs		Q4/Q4	4 Qs /4 Qs
2,561	2,107	9,192*	8,345	21.55%	10.15%

*the presented figure does not include the stocktaking surplus of 61,000 tonnes revealed during the financial year

Table 3 Structure of commercial coal production by LW BOGDANKA for Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013

	2014	2013	2014	2013
	Q4		4 Qs	
Fine coal	97.49%	96.82%	98.03%	97.19%
Nut coal	0.62%	1.68%	0.45%	1.41%
Pea coal	1.89%	1.50%	1.52%	1.40%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production was in the range about 97%-98%).

In the fourth quarter of 2014 the sales of coal grew by over 13% compared to the fourth quarter of 2013, while four quarters of 2014 saw an increase in sales by over 12% compared to the same period of 2013.

Table 4 Commercial coal sales by LW BOGDANKA for Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013 ['000 tonnes]

2014	2013	2014	2013	Change 2014/2013	
Q4		4 Qs		Q4/Q4	4 Qs/4 Qs
2,340	2,062	9,163	8,147	13.48%	12.47%

Chart 1 Analysis of the extraction of coal

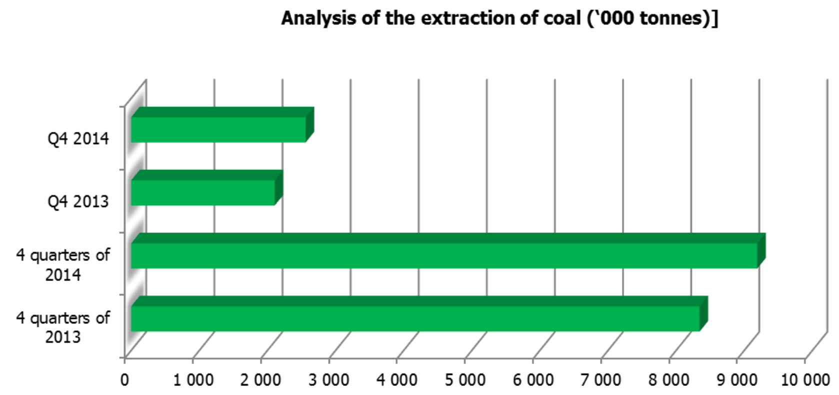
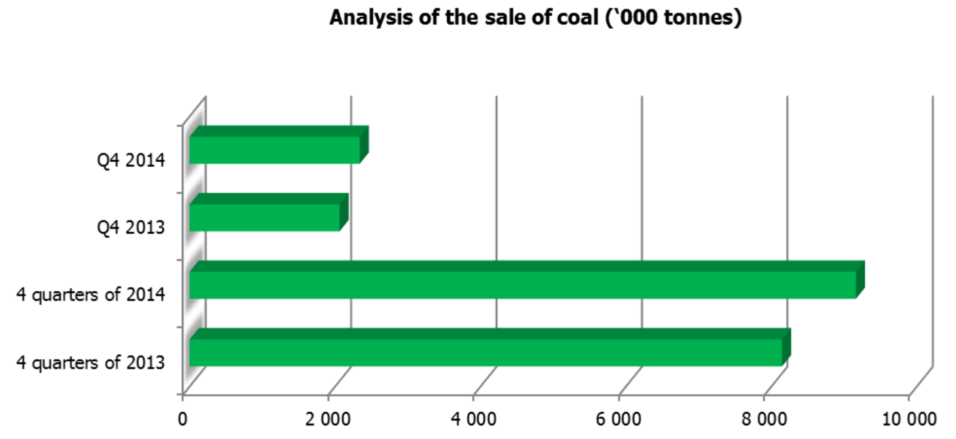


Chart 2 Analysis of the sale of coal



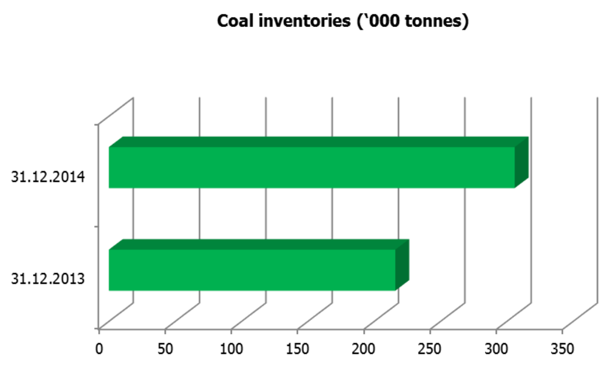
At the end of the fourth quarter of 2014 the level of coal inventories was 306,000 tonnes, which means an increase by 90,000 tonnes, i.e. by 41.67% compared to the level as at 31 December 2013. The volume of inventories as at 31 December 2014 includes the surplus disclosed during the stocktaking in the fourth quarter of 2014 in the amount of 33,000 tonnes. In the entire 2014, the surplus disclosed as a result of the stocktaking amounted to 61,000 tonnes. The level of coal inventories presented at the end of the fourth quarter of 2014 corresponds to ca. ten days of commercial coal production of the Parent (based on average annual production).

Table 5 Inventories of coal after 4 Qs 2014 and 4 Qs 2013 ['000 tonnes]

Item	31 Dec. 2014	31 Dec. 2013	Change [%] (31 Dec. 2014/ 31 Dec. 2013)
Inventories of coal	306*	216	41.67%

*The level of the inventories of coal takes into account a coal deposit (116,000 tonnes) for several customers. The Company sold the indicated volume of coal, and agreed to store it until the customers have disposed of their inventories. As at the date of this Report, the volume of the deposit is about 20,000 tonnes.

Chart 3 Coal inventories



Information about the Polish coal market is contained in section 2.1 of the Director's Report on Operations of LW BOGDANKA for 2014.

3.4 Revenue and key customers

In the fourth quarter of 2014 the LW BOGDANKA Group generated revenue of PLN 523,224,000, which means an increase by nearly 9% compared to the fourth quarter of 2013; while in four quarters of 2014 the Group generated revenue of PLN 2,013,568,000 which means a year-to-year increase of revenue by 6%.

The main source of the Group's revenue is the production and sale of power coal. In each of the compared reporting periods this activity generates nearly 95% of the Group's revenue.

In the consolidated annual financial statements published by the Group, for presentation purposes, data 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 consolidated annual income statement for the period from 1 January to 31 December 2014 was adjusted by PLN 92,487,000, while in the same period of the previous year – by PLN 99,742,000.

Approx. 92% of coal sales (in terms of value) realised in the period from 1 January to 31 December 2014 (by 3 p.p. more than in the same period of the previous year) were carried out on the basis of long–term trade agreements between Lubelski Węgiel BOGDANKA and Elektrownia Kozienice S.A., GDF Suez Energia Polska S.A., ENERGA Elektrownie Ostrołęka S.A., PGNiG Termika S.A., Grupa Azoty Zakłady Azotowe Puławy S.A., and EDF Paliwa Sp. z o.o.

The following companies were customers whose share in the Company's sales in 2014 exceeded 10% of the total revenue:

- Elektrownia Kozienice S.A. – ENEA Group - approx. 40% share in the revenue
- GDF SUEZ Energia Polska S.A. (Połaniec) - approx. 17% share in the revenue
- ENERGA Elektrownie Ostrołęka S.A. – approx. 15% share in the revenue
- PGNiG Termika S.A. – approx. 13% share in the revenue.

The Company has no links with the above mentioned entities.

Table 6 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013 [PLN '000]

Item	2014	2013	2014	2013	Change 2014/ 2013	
	Q4		4 Qs		Q4 / Q4	4 Qs / 4 Qs
Sales of coal	498,158	456,655	1,919,695	1,817,425	9.09%	5.63%
Sales of ceramics	362	1,204	3,753	5,124	-69.93%	-26.76%
Other activities	21,261	21,158	77,890	67,545	0.49%	15.32%
Sales of goods and materials	3,443	2,514	12,230	9,736	36.95%	25.62%
Total revenue	**523,224**	**481,531**	**2,013,568**	**1,899,830**	**8.66%**	**5.99%**

Revenue from other activities (including revenue of subsidiaries) in the fourth quarter of 2014 amounted to PLN 21,261,000 compared to PLN 21,158,000 in the same period of 2013 (plus 0.49%). In the entire 2014, revenue from other activities amounted to PLN 77,890,000 compared to PLN 67,545,000 in 2013.

In the fourth quarter of 2014, the revenue from other activities accounted for 4.06% of the total revenue, compared to 4.39% 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 (the highest impact on the growth of revenue in this group);
- revenue generated by Łęczyńska Energetyka from the sale of heat energy to third parties;
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the fourth quarter of 2014 increased from 0.52% to 0.66% compared to the fourth quarter of 2013. In the analysed period of 2014 and 2013, the dominant position in the amount was revenue from the sale of scrap (on the part of the Parent).

Table 7 Structure of the LW BOGDANKA Group revenue by product range in Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013

Item	2014	2013	2014	2013
	Q4		4 Qs	
Sales of coal	95.21%	94.84%	95.33%	95.66%
Sales of ceramics	0.07%	0.25%	0.19%	0.27%
Other activities	4.06%	4.39%	3.87%	3.56%
Sales of goods and materials	0.66%	0.52%	0.61%	0.51%
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 in the most part concerned sales of ceramics. The share of export in the total revenue amounted only to 0.01%.

Table 8 Geographic structure of revenue of the LW Bogdanka Group in Q4 2014 and Q4 2013 and 4 Qs 2014 and 4 Qs 2013 [PLN '000]

Item	2014		2013		2014		2013	
	Q4	% share	Q4	% share	4 Qs	% share	4 Qs	% share
Domestic sales	523,195	99.99%	481,343	99.96%	2,013,120	99.98%	1,898,783	99.94%
Export sales	29	0.01%	188	0.04%	448	0.02%	1,047	0.06%
Total revenue	**523,224**	**100.00%**	**481,531**	**100.00%**	**2,013,568**	**100.00%**	**1,899,830**	**100.00%**

3.4.1 The LW BOGDANKA Group's suppliers

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. At LW BOGDANKA all procurement orders above the thresholds, as defined in the Public Procurement Law, are granted in compliance with the procedures specified in the abovementioned Act. Other orders are made based on procedures applied at the Parent.

The principal suppliers for the LW BOGDANKA Group include mainly companies that provide services and offer products characteristic for mining industry (driving and reconstructions of excavations, output dump, as well as supply of longwall gallery lining, specialist mining machines and equipment) and ones that provide electricity. Between 1 January 2014 and 31 December 2014, the value of the turnover with any supplier did not exceed 10% of the Group's total revenue.

3.5 Provisions at the LW BOGDANKA Group

Table 9 Balance-sheet provisions in the LW BOGDANKA Group at the end of 2014 and 2013 [PLN '000]

Item	As at 31 Dec. 2014	As at 31 Dec. 2013	Change [%] 2014/2013
Employee provisions	226,724	200,030	13.34%
Provision for real property tax	23,258	27,846	-16.48%
Provision for mine closure costs	123,585	85,278	44.92%
Mining damage	9,155	12,933	-29.21%
Provision for Social Insurance Institution (ZUS) claims for accident contributions	15,901	0	-
Other	25,295	24,058	5.14%
TOTAL	**423,918**	**350,145**	**21.07%**

The total provisions as at 31 December 2014 amounted to PLN 423,918,000, which means an increase by 21.07% compared to the value as at the end of the year. Employee provisions on a year-by-year basis grew by 13.34% and amounted to PLN 226,724,000 at the end of the year.

The change in provisions in the fourth quarter of 2014 was PLN -11,817,000 compared to PLN -23,767,000 in the fourth quarter of 2013. The decrease in provisions in 2014 results from updated provisions for employee benefits and liabilities for real property tax. The change in employee provisions in the fourth quarter of 2014 amounted to -9,917,000 compared to PLN 30,323,000 in the same period of 2013, while change in provisions for real property tax in the fourth quarter of 2014 amounted to PLN -10,786,000 compared to PLN + 15,087,000 in the fourth quarter of 2013.

The increase in provisions in four quarters of 2014 went up by 241.26%, and amounted to PLN 73,773,000 compared to the same period of 2013. Such a sharp growth mainly results from the following:

- update of the provision for mine closure costs (the value of assets for future liquidation increased, but most importantly the discount rate went down);
- update of employee provisions (the employment in Company went up, but the decrease of the discount rate was of key importance);
- creation of a provision for Social Insurance Institution (ZUS) claims for accident contributions.

Table 10 Change in provisions in the LW BOGDANKA Group for Q4 2014, Q4 2013, 4Qs 2014 and 4Qs 2013 [PLN '000]

Item	2014	2013	Change [%]	2014	2013	Change [%]
	Q4		2014/2013	4 Qs		2014/2013
Employee provisions	-9,917	-30,323	-67.30%	26,694	7,362	262.59%
Provision for real property tax	-10,786	15,087	-	-4,588	18,344	-
Provision for mine closure costs	7,577	-12,908	-	38,307	-4,583	-
Mining damage	-2,432	3,894	-	-3,778	-537	603.54%
Provision for Social Insurance Institution (ZUS) claims for accident contributions	3,487	0	-	15,901	0	-
Other	254	483	-47.41%	1,237	1,032	19.86%
TOTAL	**-11,817**	**-23,767**	**-50.28%**	**73,773**	**21,618**	**241.26%**

3.6 Selected financial data

3.6.1 Group's revenue, costs, profit and loss

Table 11 Analysis of the consolidated income statement [PLN '000]

Item	2014	2013	Change [%]	2014	2013	Change [%]
	Q4		2014/2013	4 Qs		2014/2013
Revenue	523,224	481,531	8.66%	2,013,568	1,899,830	5.99%
Costs of products, goods and materials sold, selling and administrative costs	385,241	356,362	8.10%	1,633,993	1,444,031	13.15%
Profit on sales	**137,983**	**125,169**	**10.24%**	**379,575**	**455,799**	**-16.72%**
Profit on sales margin (Gross margin)	*26,37%*	*25,99%*	*1.46%*	*18,85%*	*23,99%*	*-21.43%*
Other income	333	1,545	-78.45%	1,435	3,837	-62.60%
Other costs	2,204	2,137	3.14%	3,502	3,062	14.37%
Net operating profit/loss	**136,112**	**124,577**	**9.26%**	**377,508**	**456,574**	**-17.32%**
Other net losses	-405	-7,333	-94.48%	-15,193	-31,771	-52.18%
Operating profit (EBIT)	**135,707**	**117,244**	**15.75%**	**362,315**	**424,803**	**-14.71%**
EBIT margin	*25,94%*	*24,35%*	*6.53%*	*17,99%*	*22,36%*	*-19.54%*
EBITDA	**247,469**	**206,600**	**19.78%**	**749,953**	**754,941**	**-0.66%**
EBITDA margin	*47,30%*	*42,90%*	*10.26%*	*37,24%*	*39,74%*	*-6.29%*
Finance income	142	1,828	-92.23%	7,071	7,267	-2.70%
Finance costs	5,838	6,312	-7.51%	23,532	18,341	28.30%
Profit before taxation	**130,011**	**112,760**	**15.30%**	**345,854**	**413,729**	**-16.41%**
Pre-tax profit margin	24,85%	23,42%	6.11%	17,18%	21,78%	-21.12%
Income tax	28,453	7,765	266.43%	73,502	84,001	-12.50%
Net profit for the financial year	**101,558**	**104,995**	**-3.27%**	**272,352**	**329,728**	**-17.40%**
Net profit margin	*19.41%*	*21.80%*	*-10.96%*	*13.53%*	*17.36%*	*-22.06%*
- attributable to shareholders of the Parent	101,410	104,978	-3.40%	272,845	329,417	-17.17%

Chart 4 Analysis of the consolidated income statement on individual levels of the Group's operations in Q4

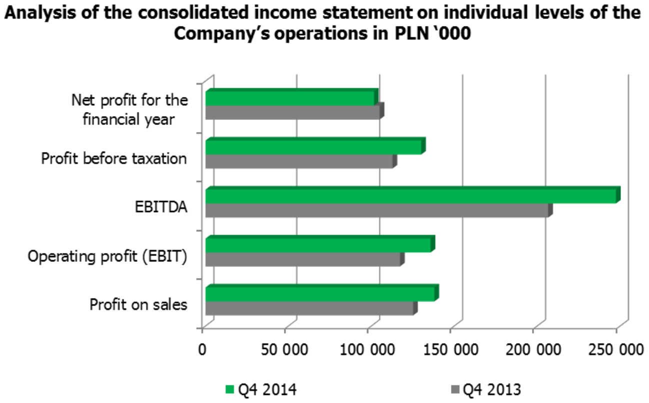
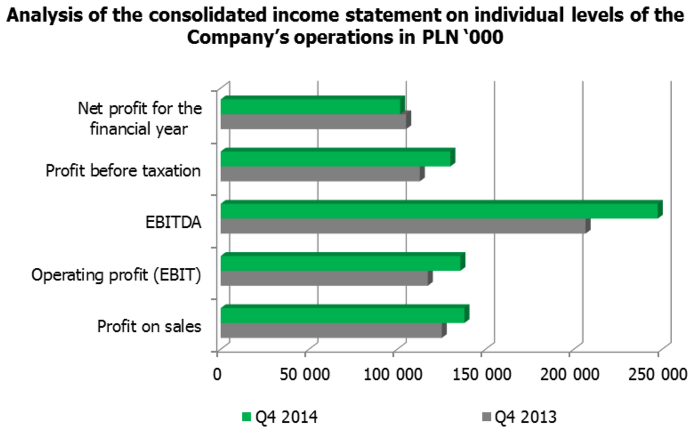


Chart 5 Analysis of the consolidated income statement on individual levels of the Company's operations in 4 Qs



Revenue

The value of revenue for the fourth quarter of 2014 increased by nearly 9% compared to the same period of the previous year and amounted to PLN 523,224,000. In twelve months of 2014, the Group recorded an increase in revenue by about 6% compared to same period of 2013 (it generated PLN 2,013,568,000 in 2014 compared to PLN 1,899,830,000 in 2013).

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

In the fourth quarter of 2014 the costs of products, goods and material sold plus selling and administrative costs went up by 8.10% compared by the same period of the previous year and amounted to PLN 385,241,000. When data for the twelve months is analysed, the year-to-year change was +13.15%.

Profit on sales

The profit on sales in the fourth quarter of 2014 went up by 10.24% compared to the fourth quarter of 2013 and amounted to PLN 137,983,000, whereas in twelve months of 2014 the profit went down by nearly 17% compared to the same period of 2013.

Other income

In the fourth quarter of 2014 other income amounted to PLN 333,000 compared to PLN 1,545,000 a year before. In four quarters of 2014 the other income went down by 62.60% compared to the same period of 2013 (PLN 3,837,000) and amounted to PLN 1,435,000. The dominant items in the value for 2014 are: revenue from reversal of impairment losses (PLN 425,000), revenue from reversal of the used provisions for liabilities (PLN 408,000) and damages received (PLN 381,000).

Other costs and other net losses

In the fourth quarter of 2014 other losses amounted to PLN 405,000, while in the fourth quarter of 2013 they equalled PLN 7,333,000, which means a change of PLN 6,928,000. In the entire 2014 the Group generated the other net loss of PLN 15,193,000 compared to PLN 31,771,000 in 2013. In 2014 a provision for claims of the Social Insurance Institution (ZUS) for accident contributions was created in the amount of PLN 14,860,000. In connection with technical and economic analyses performed by the Company, a permanent impairment loss of assets was recognised in 2013 in the amount of PLN 25,321,000.

EBIT

The operating profit in the fourth quarter of 2014 amounted to PLN 135,707,000 and was higher by 15.75% compared to the fourth quarter of 2013, whereas EBIT for the twelve months of 2014 was lower by 14.71% than in the same period of the previous year. EBIT margin in the fourth quarter of 2014 was 25.94%, i.e. it was higher by 1.59 p.p. than in the fourth quarter of the previous year. When data for four quarters is analysed, a decrease in EBIT margin is observed to 17.99% (-4.37 p.p.).

EBITDA

EBITDA, i.e. operating profit plus depreciation and amortisation, in the fourth quarter of 2014 went up by 19.78% compared to the fourth quarter of 2013 and amounted to PLN 247,469,000 – it was the highest of the amounts published to date. Depreciation and amortisation in the fourth quarter of 2014 amounted to PLN 111,762,000 compared to 89,356,000 in the same period of 2013; while in four quarters of 2014 a decrease in EBITDA of 0.66% was noted, with EBIT going down by 14.71%. EBIT for the second quarter of 2014, which amounted to PLN 40,700,000, influenced EBITDA for the entire year. By way of comparison, the lowest result for the remaining three quarters amounted to PLN 85,958,000.

EBITDA margin the fourth quarter of 2014 was 47.30% and was higher than in the same analysed period of 2013. When annual data for 2014 and 2013 is analysed, a decrease in EBITDA margin (by 6.29%, i.e. by 2.50 p.p.) is noted, EBITDA for four quarters of 2014 was 37.24%.

Finance income

Finance income in the fourth quarter of 2014 amounted to PLN 142,000, which shows a decrease of about 92% compared to the same period of 2013. In the entire 2014 the finance income went down by PLN 196,000 to PLN 7,071,000. Decreased income was due to the National Bank of Poland reducing reference rates (at the same time the annual average level of cash in the Group was higher).

Finance costs

The finance cost for the twelve months of 2014 amounted to PLN 23,532,000 compared to PLN 18,341,000 in 2013 (increase by 28.30%). The total indebtedness of the Group amounted to PLN 813,854,000 as at 31 December 2014 compared to PLN 621,000,000 as at 31 December 2013. In 2014 lower reference rates were in place. In the fourth quarter of 2014 the finance costs amounted to PLN 5,838,000 and were lower by 7.51% than in the fourth quarter of 2013.

Profit before taxation

In the fourth quarter of 2014 the Group generated pre-tax profit which was higher by 15.30% than in the fourth quarter of 2013. In the twelve months of 2014 the Group generated pre-tax profit of PLN 345,854,000 compared to PLN 413,729,000 a year before – the pre-tax profit went down by 16.41%.

Net profit

In the fourth quarter of 2014 the Group generated net profit lower by 3.27% than in the fourth quarter of 2013 – it amounted to PLN 101,558,000 in 2014 compared to PLN 104,995,000 in 2013. And net profit for the twelve months of 2014 reached PLN 272,352,000, which shows a decrease by more than 17% compared to the same period of 2013. Net profit for the financial year attributable to the shareholders of the Parent amounted to PLN 272,845,000 compared to PLN 329,417,000 for 2013.

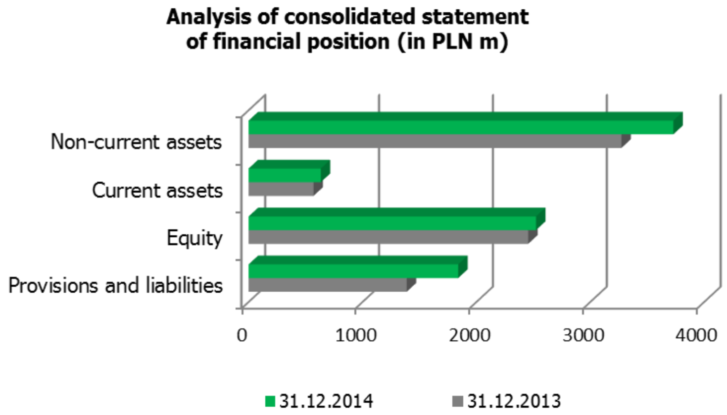
3.6.2 Balance sheet

Table 12 Selected financial information of the LW BOGDANKA Group [PLN '000]

Item	31 Dec. 2014	31 Dec. 2013	Change % [2014/2013]
Total assets	4 364 415	3 844 130	13.53%
*Return on Assets (ROA)**	6,64%	9,00%	-26.22%
Non-current assets	3 730 165	3 274 004	13.93%
Current assets	634 250	570 126	11.25%
Equity	2 523 827	2 455 531	2.78%
*Return on Equity (ROE)**	10,94%	13,88%	-21.18%
Provisions and liabilities	1 840 588	1 388 599	32.55%

* - the calculations consider the average level of assets and equity ([as at 31 December 2014 + as at 31 December 2013)]/2

Chart 6 Analysis of the consolidated statement of financial position



Assets

The balance-sheet total as at 31 December 2014 went up by 13.53% to PLN 4,364,415,000 compared to the value as at 31 December 2013 (increase of PLN 520,285,000). Non-current assets increased by nearly 14%, which is largely the result of the investment program carried out by the Parent. Current assets went up by more than 11%, with the value of inventories going up by nearly 19%, trade and other receivables going up by ca. 23%, and cash and cash equivalents going down by nearly 8%. The quantitative level of coal inventories (which includes a deposit of PLN 116,000 tonnes) presented at the end of the fourth quarter of 2014 corresponds approximately to ten days of commercial coal production (on the basis of annual average production).

As at 31 December 2014 ROA went down by 2.36 p.p. and equalled, as at the balance-sheet date, 6.64%.

Equity and liabilities

The equity went up by 2.78%. It was the result of distribution of profit for the previous year effected by the General Shareholders Meeting and adding net profit/loss for the twelve months of 2014 to equity.

Provisions and liabilities went up by nearly 33% compared to the value as at 31 December 2013: current liabilities decreased by 17.26% (in 2014 the repayment of loans in the amount of PLN 421,000,000 was made, at the same time a limit in bank account in the amount of PLN 99,008,000 was used), while non-current liabilities increased by 102.07% (PLN +591,650,000) – the debt was increased by bonds issued by the Parent in 2014 in the amount of PLN 500,000,000.

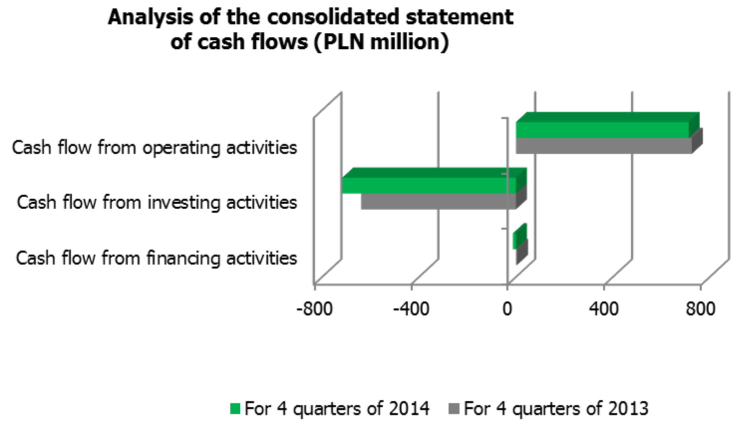
As at 31 December 2014 a decrease of 2.94 p.p. in return on equity compared to the end of 2013 was noted. The ratio as at 31 December 2014 was 10.94% compared to 13.88% as at 31 December 2013.

3.6.3 Cash flows

Table 13 Consolidated cash flows in 4 Qs 2014 and 4 Qs 2013 and Q4 2014 and Q4 2013 [PLN '000]

Item	2014	2013	Change %	2014	2013	Change %
	Q4		2014/2013	4 Qs		2014/2013
Cash flow from (used in) operating activities	145,917	163,045	-10.51%	712,863	726,043	-1.82%
Cash flow from (used in) investing activities	-288,593	-190,945	51.14%	-716,887	-639,154	12.16%
Cash flow from (used in) financing activities	-88,839	39,394	-	-12,499	4,564	-

Chart 7 Analysis of the consolidated statement of cash flows



In the fourth quarter of 2014 the Group generated net cash flow from operating activities lower by 10.51% than in the fourth quarter of 2013, in the period from 1 October 2014 to 31 December 2014 it amounted to PLN 145,917,000 compared to PLN 163,045,000 a year before. The cash flow from operating activities for the twelve months of 2014 went down as compared to 2013 by 1.82% and amounted to PLN 712,863,000. Cash flow from investing activities increased (in absolute terms) during the twelve months of 2014 by 12.16% (to PLN -716,887,000) compared to the same period of 2013. It was the result of higher expenses for the acquisition of property, plant and equipment compared to 2013, in accordance with the pursued development strategy of the Parent.

In the period from 1 January to 31 December 2014 the Group recorded negative cash flow from financing activities in the amount of PLN -12,499,000 (the Parent, among other things, raised PLN 500,000,000 under the bond issue scheme, paid out dividend from profit for the 2013 financial year amounting to PLN 197,590,000, and repaid the loans in the amount of PLN 421,000,000).

3.6.4 Debt and financing structure of the LW BOGDANKA Group

Table 14 Debt ratios of the LW BOGDANKA Group.

Item	31 Dec. 2014	31 Dec. 2013	Change [%] (2014/2013)
Overall debt ratio	42.17%	36.12%	6.05 p.p.
Ratio (debt plus employee liabilities)/EBITDA*	1.39	1.09	27.52%
Net debt /EBITDA ration	0.82	0.54	51.85%
Debt to equity ratio	72.93%	56.55%	16.38 p.p.
Fixed capital to non-current assets ratio	95.75%	90.10%	5.65 p.p.
Current debt ratio	15.34%	21.04%	-5.7 p.p.
Non-current debt ratio	26.84%	15.08%	11.76 p.p.

*debt=non-current liabilities for bond issue plus long-term loans and borrowings plus short-term loans and borrowings

Overall debt ratio

The overall debt ratio as at 31 December 2014 went up by 6.05 p.p. compared to the end of 2013 and reached 42.17% - the share of borrowed capital in the overall financing sources of the Group increased.

The level of the Group's debts as at 31 December 2014 did not pose any risk to the Group's operation and ability to settle liabilities in a timely manner. On the basis of medium and long-term forecasts, the financial needs of the Group are analysed in order to ensure liquidity and an appropriate level of cash.

Ratio (debt plus employee liabilities)/EBITDA

The ratio showing debt to EBITDA increased at the end of December 2014 by 27.52% and reached 1.39. In 2014 there was, among other things, an increase of the value of debt liabilities under issued bonds and the value of employee provisions.

Ratio net debt/EBITDA

The ratio showing net debt (sum of interest-bearing short- and non-current liabilities minus cash and cash equivalents) to EBITDA went up from 0.54 as at 31 December 2013 to 0.82 as at 31 December 2014. Net debt went up (by about PLN 198,457 million) with a slight decrease of EBITDA (by about PLN 5 million).

Debt to equity ratio

The debt to equity ratio as at 31 December 2014 went up by 16.38% compared to the ratio as at 31 December 2013 and reached 72.93% - the increase in borrowed capital was higher than the change in equity.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 95.75% (as at 31 December 2014) compared to 90.10% (as at 31 December 2013) – in the analysed period the value of fixed capital grew faster (equity plus non-current liabilities less provisions) than the value of non-current assets.

3.6.5 Liquidity ratios

Table 15 Liquidity ratios [days]

Item	31 Dec. 2014	31 Dec. 2013	Change [%] (2014/2013)
Current liquidity ratio	1.06	0.77	37.66%
Quick liquidity ratio	0.84	0.62	35.48%

In the period covered by the consolidated annual 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.

3.6.6 Turnover ratios

Table 16 Turnover ratios [days]

Item	Formula	31 Dec. 2014	31 Dec. 2013	Change [%] (2014/2013)
1. Inventory turnover	Average inventories costs of goods, products and materials sold	30	23	30.43%
2. Debtors collection rate*	Average debtors revenue	49	46	6.52%
3. Creditors payment rate**	Average creditors costs of goods, products and materials sold	89	82	8.54%
4. Operating cycle	1 + 2	79	69	14.49%
5. Cash conversion cycle	4 - 3	-10	-13	-23.08%

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

Inventory turnover

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

Debtors collection rate

The debtors collection rate (calculated on the basis of the balance-sheet item "Trade and other receivables") was 49 days (as at 31 December 2014), as compared to 46 days (as at 31 December 2013). The increase in the rate is attributable to an increase in the average level of other receivables as the Group's revenue.

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 longer by 7 days to 89 days, as compared to the end of 2013. In the analysed period the Group had higher average level of short-term trade liabilities.

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. The time necessary for realising the Group's current assets got longer by 10 days on average.

Cash conversion cycle

As a result of the trends described above, a cash conversion cycle of -10 days was achieved as at 31 December 2014 compared to -13 days as at 31 December 2013. The negative value of the cash conversion cycle means that the Group uses non-interest-bearing borrowed capital.

3.7 Information on financial instruments

Forward foreign exchange contracts

In order to hedge itself against foreign exchange risk arising out of:

1. The agreement of 17 February 2014 to supply a brand new wall-ploughing complex for low seams:
   - on 24 march 2014 the Parent entered into a negotiated forward foreign exchange transaction for an amount bought of EUR 3.98 million (amount sold: PLN 17.07 million) with the performance (currency delivery) date scheduled for 31 March 2015.
   - on 24 March 2014 the Parent entered into a negotiated forward foreign exchange transaction for an amount bought of EUR 23.85 million (amount sold: PLN 102.23 million) with the performance (currency delivery) date scheduled for 27 February 2015.
2. The agreement of 7 February 2013 to supply a brand new wall-ploughing complex:
   - on 31 July 2014 the Parent performed (currency delivery) a negotiated forward foreign exchange transaction for an amount bought of EUR 33.27 million (amount sold: PLN 144.06 million) entered into on 23 May 2013.
   - on 14 November 2014 the Parent performed (currency delivery) a negotiated forward foreign exchange transaction for an amount bought of EUR 8.32 million (amount sold: PLN 36.195 million) entered into on 23 May 2013.
3. The agreement for the sale of coal:
   - on 23 December 2014 the Parent entered into a negotiated forward foreign exchange transaction for an amount bought of PLN 3.26 million (amount sold: USD 930,000) with the currency delivery date scheduled for 27 February 2015.

Bonds

On 25 June 2014 under the "Agreement of 23 September 2013 on the Bond Issue Program up to the Amount of PLN 300,000,000" the Parent issued the total of 1,000 bonds with the nominal value of PLN 100,000 each, to the aggregate amount of PLN 100 million. As at 31 December 2014 the total value of all bonds issued under the "Agreement of 23 September 2013 on the Bond Issue Program up to the Amount of PLN 300,000,000" stands at PLN 300 million.

On 30 June 2014 the Parent concluded an "Agreement on the Bond Issue Program up to the Amount of PLN 600,000,000" with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego, as notified in Current Report No. 13/2014. The aim of bond issue is to obtain funds for refinancing the existing debt, finance the Parent's day-to-day operations and satisfy its investment needs.

As provided for in the Agreement, the bonds will be issued in two tranches, Tranche 1 and Tranche 2, each up to the amount of PLN 300 million. Tranche 1 will be issued no later than on 30 June 2015, and Tranche 2 no later than on 30 June 2016. The term of the program begins on the day of signing the Agreement and ends for Tranche 1 on 31 December 2019 and for Tranche 2 on 31 December 2020. The interest rate of bonds is variable and determined annually based on WIBOR 3M, increased by a fixed margin. The following security interests for the bondholders have been established:

- a claim assignment agreement with respect to an agreement with one of the Company's customers,
- a statement of submission to execution,
- a power of attorney to the indicated bank accounts of the Company.

The bonds will not be offered in a public offering within the meaning of the Act on Public Offering.

The above information was published in Current Report No. 13/2014 on 30 June 2014.

On 1 August 2014 Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego jointly acquired two series of bonds, i.e. 400 bonds, issued by the Parent under the "Agreement of 30 June 2014 on the Bond Issue Program up to the Amount of PLN 600,000,000" with the nominal value of PLN 1,000,000 each, totalling PLN 400 million, as notified by the Company in Current Report No. 15/2014 of 1 August 2014.

As at 31 December 2014 the value of the performed part of the program provided for in the "Agreement of 30 June 2014 on the Bond Issue Program up to the Amount of PLN 600,000,000" stands at PLN 400,000,000.

As at 31 December 2014 the aggregate value of both Programs performed stood at PLN 700,000,000.

In four quarters 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 financial liquidity. The Group is of the opinion that the risk associated with trade debtors is limited as it 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, and knows in advance what amounts will be due. Moreover, the cooperation with banks is good which causes that the Group may obtain additional debt financing, in accordance with the long-term strategic plan.

3.8 Use of proceeds from bond issue

In accordance with the Agreement concerning bond issue: "the Purpose of Issue shall mean the financing of the Issuer's day-to-day operations and investment needs (with the proviso that it does not constitute an issue purpose within the meaning of the Bonds Act)".

The proceeds from the bond issue were used in compliance with the purpose of the issue. Investment projects carried out with the use of these proceeds are described in section 4.2 of the Report.

3.9 Assessment of factors and untypical events affecting the Group's operations and the Group's consolidated operating profit for the financial year

In 2014 no untypical factors and events occurred that may have influenced the Group's operations. Events that affected operations and financial results of the LW BOGDANKA Group in the financial year 2014 or which may have influence thereon in the following years have been described in other sections of the Report.

3.10 Differences between financial results of the Group disclosed in the annual report and the published result forecasts

LW BOGDANKA did not publish forecasts of the separate or consolidated financial results of the Company for 2014.

3.11 Agreements concerning the Group's loans and borrowings

Agreements concerning the Parent's loans and borrowings

In 2014 the Parent had three loan agreements in effect.

1. Agreement No. 202-127/2/I/7/2008 on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended

with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: on 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000, PLN 9,000,000 of which was repaid in 2011, and the remaining PLN 241,000,000 was repaid in 2014. Interest on the loan was: 3M WIBOR + 0.60 p.p., the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, constituting 0.40% of the loan amount. The loan was used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt. However, the Borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

Collateral for the granted loan was:

- a blank promissory note along with a promissory note declaration,
- clause on deduction from an account in PKO BP S.A.,
- transfer of receivables under agreements on coal sale in the amount of PLN 250,000,000, to which the Company is entitled from Elektrownia Kozienice S.A. with registered office in Świerże Górne.

Annex No. 3 of 29 December 2009 introduced the Parent's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or the Group deteriorates, resulting in a necessity of making impairment losses (according to the IAS) and special-purpose provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing the Company not to create the above mentioned impairment losses and provisions. Repayment of the loan was to be carried out on the following dates and in the following amounts:

- 2011 – PLN 50,000,000
- 2012 – PLN 65,000,000
- 2013 – PLN 70,000,000
- 2014 – PLN 65,000,000.

And according to Annex No. 4 of 5 December 2011 was changed to stipulate the following dates and amounts:

- 2011 – PLN 9,000,000,
- 2014 – PLN 241,000,000.

As at 31 December 2014, the Parent did not have any debt on account of the abovementioned loan taken in Bank Polska Kasa Opieki S.A.

2. Agreement No. 2011/543/DBIiFS for a working loan in PLN concluded with Bank Polska Kasa Opieki S.A. on 23 December 2011 for the period until 31 December 2014, for PLN 200,000,000. The purpose of the loan was to finance current operations. Loan tranches were granted on the following dates and in the following amounts:

- PLN 50,000,000 on 27 December 2011,
- PLN 50,000,000 on 30 December 2011,
- PLN 50,000,000 on 30 March 2012,
- PLN 50,000,000 on 29 June 2012.

Interest on the loan was the sum of WIBOR 3M and the Bank's margin of 0.8 p.p. on an annual basis on the loan drawn. Front-end-fee was 0.1 p.p., on the loan tranche drawn. Interest rate on past due loan was variable – in the amount of statutory interest from the unpaid amount - and equals 13% p.a. on the date of agreement execution. Collateral for the granted loan was:

- confirmed assignment of receivables in the minimum amount of PLN 250,000,000 during a year,
- a blank promissory note with a promissory note declaration,
- a power of attorney to bank accounts kept with the Bank,

- a statement on submission to execution.

The principal of the loan was repaid as follows:

- 2013 – PLN 20,000,000,
- 2014 – PLN 180,000,000.

As at 31 December 2014 the Parent did not have any debt on account of the abovementioned loan taken in Bank Polska Kasa Opieki Spółka Akcyjna.

3. Agreement No. 04/021/14/Z/VV on a revolving overdraft credit facility in PLN with mBank S.A. up to the limit of PLN 150,000,000 for a period of 24 months as of the date on which the funds are made available to the Company, with the term of the credit facility agreement subject to extension. This was notified by the Parent in Current Report No. 9/2014 of 22 May 2014. The funds from the credit facility will be used to finance the Parent's day-to-day operations. The credit facility will enable the Parent to secure its financial liquidity at the level provided for in the Parent's strategy. The interest on the credit facility amounts to WIBOR 1M increased by the Bank's fixed margin of 0.3497%. The credit facility is secured by:
    - a statement of submission to execution,
    - a power of attorney to the Parent's current account kept with the Bank,
    - an assignment of claims under a coal sales agreement and the proceeds thereunder transferred to the Parent's current account maintained by the Bank.

   As at 31 December 2014 the Parent's debt under the credit facility stood at PLN 99,000,000.

Agreements concerning loans and borrowings of taken out by the Subsidiaries

On 9 June 2014, Łęczyńska Energetyka Sp. z o.o. in Bogdanka (as the borrower) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) in Lublin (as the lender) entered into an agreement for granting a borrowing for cofounding the project under the name "Construction of a water treatment facility in Bogdanka together with technological connections" in the amount of PLN 26,580,000.00. The borrowing is to be repaid in full (capital instalments plus interest) until 31 March 2024.

The borrowing bears an interest of 0.7 of rediscount rate of bills of exchange determined by the Polish Council of Monetary Policy.

In 2014, the Subsidiaries - EkoTrans Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o. did not grant or take out any loans or borrowings, or terminate any agreements concerning loans or borrowings.

3.12 Information on sureties and guarantees provided and received

Guarantees granted

In the period from 1 January 2014 to 31 December 2014, neither Lubelski Węgiel BOGDANKA nor its Subsidiaries granted (nor received) sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's equity.

In 2014, the Parent did not provide any sureties or guarantees.

Guarantees received

1. Guarantee to secure liabilities in connection with the payment of remuneration for use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits.

On 20 September 2012 Parent received from Bank Powszechna Kasa Oszczędności S.A. a Bank Guarantee of Payment No. 23 1020 3147 0000 8293 0020 9643 up to the amount of PLN 19,000,000 for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities in connection with the payment of remuneration for use of geological information concerning the "Lublin K-6-7", "Lublin K-3" hard coal deposits under Agreement No. 808/IG/2012 of 24 August 2012. The guarantee is valid until 30 September 2021.

The liability under the guarantee will be reduced on a pro rata basis in the following cases:

1. the Bank makes payments to the Ministry of Environment, in which case the guarantee shall be reduced by the amount of such payments.
2. The Parent makes payments to the Ministry of Environment in accordance with the conditions of the agreement, the receipt of which shall be confirmed by the Ministry of Environment in a statement.

Collateral for the guarantee is:

- assignment of receivables,
- a set-off clause on setting off the amounts owed against the account of the Parent with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee for the granting of the guarantee by PKO BP S.A. (0.1% on the date of signing the agreement) on the amount of liabilities of PKO BP S.A. for each 3-month period of validity of the guarantee, but not less than PLN 200; the Bank reserves the right to increase the rates of the fee in accordance with its assessment of a degree of increased risk,
- fee for increasing the guarantee amount of 0.1% of the amount of such increase, but not less than PLN 200.

2. Guarantee to secure liabilities in connection with the payment of remuneration for use of geological information concerning the "Lublin K-6-7" and "Lublin K-3" hard coal deposits

On 6 June 2013 the Parent received from Powszechna Kasa Oszczędności S.A. a Bank Guarantee of Payment No. 23 1020 3147 0000 8596 0024 8054 up to the amount of PLN 1,500,000 for the benefit of the State Treasury represented by the Ministry of Environment, ul. Wawelska 52/54, 00-922 Warsaw, to secure liabilities under Agreement No. 894/I/IG/2013, dated 13 May 2013, for making available the use of geological information on "Lublin-K-6-7", "Lublin K-3". The guarantee is valid until 30 September 2021.

Collateral for the guarantee is:

- assignment of receivables,
- a set-off clause on setting off the amounts owed against the accounts of the Parent with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee on the amount of the granted guarantee amounting to 0.10% of the amount of the granted guarantee for each commenced 3-month period of the guarantee term.
- other costs arising from the table of fees and charges, if any.

3. Guarantee to secure a portion of payment to Caterpillar Global Mining Europe GmbH for the supply (loco mine in Bogdanka) a factory-new wall ploughing system

On 26 July 2013 Lubelski Węgiel BOGDANKA S.A. received from Powszechna Kasa Oszczędności S.A. a Bank Guarantee No. 01604020000015, in the amount of EUR 37,428,244.81, to secure the liability to Caterpillar Global Mining Europe GmbH Industriestrasse 1, 44534 Lunen, Germany, under an agreement for the supply (loco mine in Bogdanka) a factory-new wall ploughing system, agreement number 222/IZ/2013 of 7 February 2013.

Collateral for the guarantee is:

- assignment of receivables in the amount of PLN 200,000,000,
- a set-off clause on setting off the amounts owed against the current account kept with PKO BP S.A.,
- a statement on submission to execution.

Guarantee costs:

- fee for handling a request for guarantee is equal to 0% of the guarantee amount,

- fee for the granting of the guarantee is equal to 0.05% of the guarantee amount, but not less than PLN 300 (the fee will be collected for each commenced 3-month period on the amount of the granted guarantee or on the current balance of the granted guarantee),
- fees and charges, if any, for other services not listed in the agreement, connected with handling of the guarantee.

The Bank Guarantee expired on 23 January 2015.

4. Guarantee to secure a portion of payment due to Caterpillar Global Mining Europe GmbH for the supply of a factory-new wall-ploughing complex for low-lying seams.

On 27 May 2014 the Parent concluded with Bank Polska Kasa Opieki S.A. "Agreement No. 2014/107/DDF on Opening a Guarantee Facility". Under the Agreement the Bank granted the Parent a revolving facility enabling it to issue bank guarantees in domestic and international transactions up to the cap of EUR 35,000,000, for the purpose of issuing bank guarantees to secure claims arising out of business operations, excluding guarantees securing the repayment of liabilities. Pursuant to "Agreement No. 2014/107/DDF on Opening a Guarantee Facility" the Parent may submit instructions to issue guarantees within the term of use of the facility limit until 27 May 2015. The guarantee period may not exceed 24 months. The expiry date of guarantees may not be later than 27 May 2017. In connection with granting the guarantees the Bank is entitled to:

- a guarantee servicing fee – 0.17 % on a guarantee amount, but no less than PLN 150, for each commenced 3-month period of validity of the guarantee,
- a fee for payments made under the guarantee arising out of a claim submitted under the guarantee to the amount of PLN 300,
- costs related to the establishment, creation, change and release of legal collaterals.

Collaterals include:

- a statement of submission to execution,
- a power of attorney to the Parent's bank account.

On 13 June 2014 under "Agreement No. 2014/107/DDF on Opening a Guarantee Facility" of 27 May 2014 the Bank issued a Payment Guarantee No. DDF/12325/2014/Z to secure the payment of part of the net price amounting to EUR 27,825,000 for the supply of a factory-new wall-ploughing complex for low-lying seams pursuant to Agreement No. 235/IZ/2014 of 17 February 2014 concluded between the Parent and Caterpillar Global Mining Europe GmbH, Industriestrasse 1, 44534 Lunen, Germany. The guarantee will expire on 31 August 2015.

3.13 Overview of significant off-balance sheet items of the Group in subjective, objective and value terms

In 2014, there were no significant off-balance sheet items.

4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR LW BOGDANKA S.A.'S OPERATIONS IN 2014

4.1 The Group's Development strategy and its policy on development directions

Previous Development strategy and the scope of its implementation:

The Company's strategy was communicated to investors in Current Report of 3 June 2014.

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;

  as part of the objective:

  - the extension of the Mechanical Coal Processing Plant has been completed (with the maximum processing capacity now standing at 67,500 tonnes per day),
  - in November 2014 "Bogdanka 4", the last wall-ploughing complex was delivered, enabling the Company to reach full production capacity in coal extraction simultaneously from 4 or 5 walls,
  - the Company's annual production capacity reached 10.5-11.5 million tonnes, depending on the quality of the seam and the coal yield achieved.
- 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;

  - as part of the objective a technical and a construction design were prepared for the modernisation of shaft 1.5 in the Nadrybie Field – the modernisation of the shaft was temporarily suspended – at least until 2017.
- 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);

  as part of the objective:

  - in 2014 the Company was granted prospecting licences with respect to Ostrów and Orzechów areas and a mining licence for the K-3 area (with 19 million tonnes of exploitable resources),
  - the Company has continued its efforts to obtain a mining licence for the K6-K7 area, filing on 12 December 2014 a complaint with the Provincial Administrative Court in Warsaw against the decision issued by the Minister of the Environment, refusing to grant the licence,
  - work has been commenced with the view to converting the prospecting licence into a mining licence for Ostrów and Orzechów deposits and making additional use of approx. 400 million tonnes of exploitable resources. These deposits offer the greatest prospects due to the volume of the resources available and the possibility to begin extraction quickly using the existing surface and underground infrastructure of the Bogdanka and Nadrybie Fields.
- 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 and a 30% share in sales of power coal for commercial power industry in Poland in 2015, compared to approx. 14% and 19%, respectively, in 2012;

  as part of the objective:

  - at the end of 2014 the Company's share in the domestic power coal market and in the domestic sales of coal to the commercial power industry stood at 16.6% and 24.9%, respectively.
- 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;

  - the Company has been executing a program providing for cost reduction. In 2014 the Unit Mining Cash Cost decreased in real terms by 12.0% compared to 2012.
- to continue as the leader in innovative technical solutions by implementing a Smart Mine project:

  the following solutions have been developed:
  - a digital deposit model (the only such model so far in Polish hard coal mining industry) and a digital map of mine excavations,
  - a digital timetable of opening, preparatory and extraction works,

  work is currently underway on:
  - a decision-support system in the process of preparing a deposit for extraction,
  - a map of underground infrastructure facilities,
  - a central database.

The dividend policy which formed part of the approved Strategy for 2013-2015 provided for the payment to Company shareholders of a dividend equal to 60% of consolidated net profit. Between 2012 and 2014 the total amount of the dividend paid out by the Company stood at PLN 505.4 million (in 2012: PLN 136.0 million, in 2013: PLN 172.1 million, in 2014: PLN 197.3 million), maintaining the dividend rate (dividend per share / market value of shares) at the level of 3.2% - 5.1% and the debt ratio (total debt, including non-current liabilities due to employees / EBITDA) below 1.5 (as at 31 December 2014 this ratio stood at 1.33).

Strategic objectives and areas as provided for in the revised Company Strategy

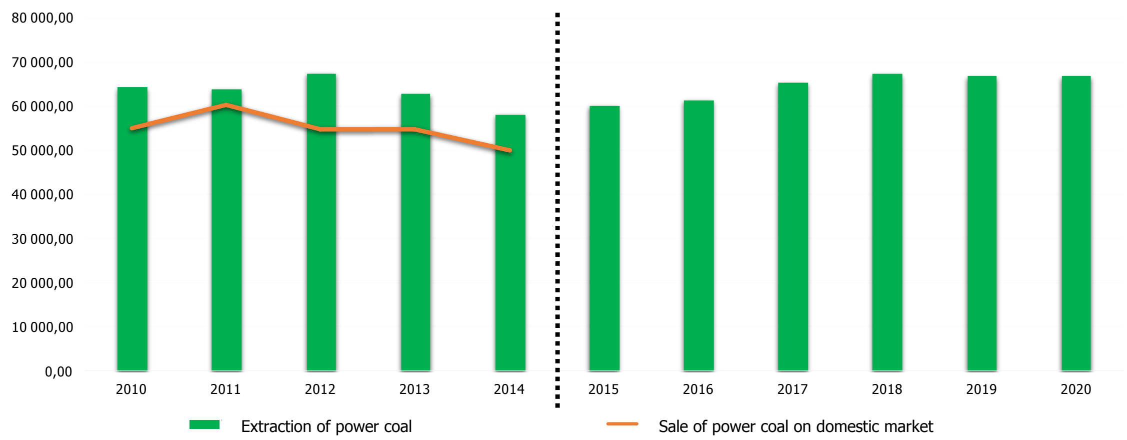
The existing strategy governing the operations and development of LW Bogdanka focused on reinforcing the Company's position as the cheapest producer (lowering the unit cost) by increasing the scale of production and a systematic growth of the Company's market share.

Between 2003 and 2013 the market for producing fine power coal shrank from approx. 61 million tonnes to approx. 53 million tonnes, with the medium-term forecasts predicting a further decline by 6-7 million tonnes by 2020.

Bogdanka's strategy assumed a continued rise in the Company's market share at the expense of the least effective producers (mines which do not hold promising future resources or extract coal in difficult mining and geological conditions).

The recent government intervention based, among other factors, on an amendment to the Act on Operation of the Hard Coal Mining Sector in 2008-2015 may result in maintaining the current level of hard coal production in Poland or even in its rise. Until 2020 the oversupply of hard coal in Poland may increase further due to the ongoing slump in demand (resulting from replacing coal with other electrical energy carriers and a higher efficiency of newly constructed coal entities) and the growth in the coal output in the hard coal mining sector despite the planned closure of several mines. The situation is intensified also by a surplus resulting from coal import exceeding the coal export.

Chart 8 Extraction, inventories and sale of power coal in Poland in 2010-2014 and a forecast of power coal extraction in 2015-2020 ['000 tonnes]



Source: ARP [*Industrial Development Agency*] – data until 2014, Development by Roland Berger – forecast until 2020

The oversupply of fine power coal is bound to keep the prices low. Despite this fact Bogdanka will be forced to adjust its production capacity to market demand (most probably failing to work at full capacity) despite lowest coal extraction costs per one tonne. This may happen already in 2015.

In 2013, the average price of power fine coal for commercial power industry amounted to PLN 230.75/tonne. As at the end of December 2014, the average price dropped to PLN 223.39. The sale of inventories by Kompania Węglowa results in further price drop in 2015.

The government intervention aimed at keeping afloat mines which supply coal at costs beyond the marginal costs in the sector and forcing power producers to purchase their output undermines the assumptions of Bogdanka's current development strategy and forces the Company to reassess its priorities.

The factors related to the state economic policy with respect to the hard coal industry and the current market evaluation are discussed in section 6.2. Risk associated with the economic policy of the State in relation to the hard coal mining sector.

The already difficult situation on the Polish market has been exacerbated by the global pricing trends for coal and other energy resources, which over the past 2 years have noted a steady decline and have now reached a record low. At the beginning of 2015 the price of coal in ARA harbours went below USD 60 per tonne, i.e. an approx. 30% drop in price as compared to the beginning of 2013.

The revised Strategy:

In view of the significant changes to market conditions, involving such factors as a substantial drop in coal prices, the size of the coal reserves in Silesian mines and power plants and the government intervention plans in the mining and energy sector, the Company's Management Board has decided to review its Strategy for 2015-2020.

The Strategy's main goals:

- Maintaining LW Bogdanka S.A.'s position of a cost leader – creating the conditions for keeping down extraction costs in the long term by optimising the structure and level of extraction and further reduction of operational costs;
- Selling coal to the power industry, heating and chemical sectors – by widening the audience of coal buyers and entering new and attractive market segments;
- Expanding on the domestic market – continuously monitoring new investment schemes and projects in the region;
- Getting a foothold in the foreign market.

Strategic objectives:

- Preparing the Company for operations on an increasingly volatile and competitive market affected by external factors;
- Executing conceptual, organisational and investment works aimed and obtaining new resources which would enable the Company to conduct its operations for a period extending significantly beyond what is currently planned;
- Further implementing a cost optimisation program with respect to coal extraction (including costs of labour) in the medium-term and optimising investment outlays;
- Maintaining the forefront position among domestic hard coal producers by achieving a 30% share in the sales of fine power coal – increasing the volume of sales to small and medium buyers;
- Ensuring a return on the capital employed to the investors.

In order to provide the Company with means to adapt to the changing market conditions, a number of alternative scenarios for business operations and development were analysed to reflect the possible change scenarios on the Polish coal market.

The following has been adopted as an optimum scenario:

- Continued exploitation of the Bogdanka and Stefanów Fields, commencing extraction from new Ostrów and Orzechów areas and, later on, the K6-K7 areas, making use of the existing mining infrastructure (without the need to build new shafts and increase yield);
- Limiting development investments to those essential from the viewpoint of opening new deposits, especially in the period between 2015 and 2017, and reviewing the planned investment outlays aimed at increasing production capacity until 2020;
- Optimising the level of production to reflect the market conditions, especially in the period between 2015 and 2017, at the same time increasing the yield from thicker seams (automated mining technology).
- Optimising the long-term investors' return, taking into account market risk.

Applying the above strategic assumptions will allow the Company to boost its effectiveness, while postponing decisions regarding its further development until the Polish hard coal market stabilises. The variant selected by the Management Board is the most flexible and provides for the possibility to restore planned production growth or even to expand it.

At present the Management Board is working on a multi-variant analysis of the Company's operations, taking into account the foreseen potential coal market development scenarios (demand and prices) until 2020, which will form the grounds for drawing up a revised Strategy.

The Company has achieved its target production capacity at a level of 10.5-11.5 million tonnes (depending on geologic conditions), however due to the present situation on the market, the commercial coal sales in 2015 is assumed at 9.3-9.5 million tonnes. Investment outlays in 2015 in the Company will not exceed PLN 560 million with cash expenditure on non-current and intangible assets in an amount not higher than PLN 640 million (given the shifting of payment for the fourth wall-ploughing complex).

At present the Company develops variants to adjust the Company's operations to the extraction level (sale possibilities) consisting in further reduction of costs and investment outlays. The level of investments for the upcoming years will be presented along with the reviewed Strategy.

The Management Board analyses the dividend policy for the upcoming years with due consideration for local and global trends as well as price conditions. The dividend policy for the upcoming years will have been adopted and announced until 30 June 2015 along with the Strategy for 2015-2020.

The application of the above assumptions will enable the Company to boost its effectiveness, while at the same time postponing the decisions regarding development projects until the Polish hard coal market stabilises.

Development strategy of Łęczyńska Energetyka Sp. z o.o.

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2020:

1) Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.

The Water Treatment Station, using the water that will come from draining the mine, will be producing potable water, water for the purposes of fire protection, and water to make up for losses in the cooling cycle.

The Water Treatment Station will be situated in the area of the existing liquid waste treatment plant, which will still be operated, whereas its final section will be situated in the existing water softening building adapted to new purposes.

Construction of a water treatment plant (WTP) for the existing infrastructure will be financed from external financing sources (a loan from the Provincial Environmental Protection and Water Management Fund in Lublin for the sum of PLN 26,580,000.00) and, in the remaining part, from own funds. In March 2014, the construction site was handed over to the general contractor for the WTP and at present, under the contract for the project in question, works are performed related to an upgrade of the existing sanitary wastewater treatment plant, an upgrade of the existing rainwater treatment plant, and a construction of new facilities of the WTP. The net value of the contract is PLN 36,667,550.61 and the planned time limit for commissioning of the first stage of the WTP is the end of May 2015. Due to the technological needs of LW BOGDANKA, there are also plans to build an additional fire-extinguishing water tank at the WTP.

2) Upgrade of the boiler house buildings in Bogdanka. This project includes, in particular, enlargement of the existing 6 kW switching station in Bogdanka (which is old and does not fulfill the current requirements related to proper protection of the switching station) in 2015-2016 and upgrade of the pump system of the boiler house in 2015-2017.

3) Construction of a new boiler unit at the boiler house in Bogdanka. Due to the need to ensure uninterrupted supply of thermal energy to customers, the plan is to build a new boiler in the boiler house. The parameters of the boiler will be selected so as to comply with the strict environmental protection standards.

4) Upgrade of the sanitary wastewater treatment plant for the facilities in Nadrybie and Stefanów (2016-2017). The current volumes of the sanitary wastewater produced in connection with the exploitation of the Stefanów field require an upgrade of the existing wastewater treatment plant in Nadrybie. Another concept that is considered

involves construction of a new wastewater treatment plant in Stefanów with simultaneous suspension of discontinuation of operation of the existing plant in Nadrybie.

5) Implementation of an Integrated Information Technology System in the Company. This system will enable rationalization of the number of employees at Łęczyńska Energetyka Sp. z o.o. and will facilitate the flow of information within the organizational structure of the Company and for LW BOGDANKA.

6) Upgrade of the district heating main line between Bogdanka and Łęczna. Continuation of the upgrade of the main line in the coming years will depend on the possibility to obtain financing from public aid sources (EU or domestic in the form of a subsidy).

Development strategy of EkoTrans Bogdanka Sp. z o.o.

In 2015 and onwards the Company is planning to conduct business operations related to mining waste management. The Company aims to recover and recycle nearly 3 million tons of waste generated by dry and wet coal processing annually.

Development strategy of RG Bogdanka Sp. z o.o.

The Company conducts and will continue to develop its operations involving preparatory works for the Parent.

4.1.1 Development strategy of MR Bogdanka Sp. z o.o.

The strategic goals of MR Bogdanka are:

1. Development of capacity in the area of production and repairs of mining machinery;
2. Production of general purpose steel structures;
3. Production and refurbishment of mass products used at LW Bogdanka.

The key objectives of the company include:

- performing repairs of mining machinery and equipment and developing the capacity in this area;
- production of general-purpose steel structures, in compliance with all formal and legal requirements;
- performing works related to refurbishment of mass products used at LW BOGDANKA;
- provision of underground and surface operation services to LW BOGDANKA.

4.2 The LW BOGDANKA Group's investments

4.2.1 Investments in 2014 and the plan for 2015

In Q1-Q4 2014 the LW BOGDANKA Group performed a scope of investment works that was necessary to double the production capacity in 2015 compared to 2011.

On account of the investment projects in 2014, capital expenditures were made for non-current construction in progress totalling PLN 802,856,000.

Table 171 Selected investment outlays at the LW BOGDANKA Group [in PLN '000]

Specification	Performance Q1-Q4 2014	Plan for 2014	Plan for 2015
DEVELOPMENT CAPEX	**480,278**	**385,782**	**164,757**
Purchase and assembly of longwall systems*	346,991	247,259	1,750
Purchase of machines, equipment, and finished goods	56,745	75,571	63,880
Central air conditioning of the Bogdanka Field	7,549	11,379	39,449
Obtaining new licences**	3,013	3,750	49,972
Expanding the MCPP and other	65,980	47,823	9,706
OPERATIONAL CAPEX	**299,479**	**299,767**	**396,045**

New excavations and upgrade of existing ones	240,348	238,651	309,112
Upgrades and repairs of machines and equipment	11,634	13,430	36,210
Environmental protection	12,034	11,610	5,030
Other operational investments	35,463	36,076	45,693
TOTAL CAPEX AT THE LW BOGDANKA GROUP	**779,757**	**685,549**	**560,802**
ŁĘCZYSKA ENERGETYKA	22,802	22,705	19,897
OTHER SUBSIDIARIES	**297**	**0**	**0**
TOTAL CAPEX AT THE LW BOGDANKA GROUP* **	**802,856**	**708,254**	**580,699**

* The plan was overrun in the item "purchase and assembly of longwall systems", due to the delivery of the fourth plough system in Q4 2014 (delivery of subassemblies that require further assembly) worth PLN 117,286,000. The payments will be accounted for after the assembly is completed and after the final acceptance, which will take place at the end of Q1 and the start of Q2 2015.

** The plan for 2015 takes into account a full value of information for the use of geological information - the payment is effected in instalments, overt a certain period of time.

*** The total investment outlays do not include the capitalised costs of third party financing. These are included in the Financial Statements of the LW BOGDANKA Group in increases in property, plant and equipment disclosed in Note 6.

The Parent

The basic objective of the investment plan for 2014 is to continue the tasks aimed to double the production capacity with regard to enlargement of the Mechanical Coal Processing Plant (MCPP), as well as enlargement of the mining sites and providing it with new equipment.

The plan for Q1-Q4 2014 included groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including use and upgrade of excavations in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.

Development investments were investments in the technical infrastructure, e.g. continuation of the enlargement of the Mechanical Coal Processing Plant, construction of the central air conditioning system in the Bogdanka Field, the integrated production management system, and acquisition of new licences.

Enlargement of the Mechanical Coal Processing Plant - the construction and erection works were completed and on 25 November 2014 the Manager of the Mining Operation Facility signed a report from a successful trial operation.

The completion of the enlargement of the Mechanical Coal Processing Plant enables the Company to double its production capacity by increasing its earlier nominal processing capacity from 1,200 t/h to 2,400 t/h.

Central air conditioning of the Bogdanka Field - the construction and erection works were continued. The construction of the air conditioning station building was completed, a yard was paved with concrete pavers, the delivered DN 250 pipes were partly assembled, reconstruction of the technical gallery and the E detour was started in order to enable guiding the DN 250 pipelines into the air conditioning chamber in pos. 960.

Integrated production management system - In 2014, works continued on the mine wireless communication system.

Enlargement of the mine with a new mining field - licence no. 3/2014 was obtained for excavation of hard coal in the K-3 area. Licences for appraisal of coal deposits were obtained:

- no. 25/2014/p in the Ostrów Field;
- no. 29/2014/p in the Orzechów Field.

As far as *purchase of machines and equipment* is concerned, the most important investment in 2014 was the purchase and installation of the plough systems. The group includes, among other things, the purchase of the plough system 3 for wall no. 3/VI/385; supplies were completed in Q3 of 2014; the system has been installed and commissioned in November 2014. In 2014, a contract was signed for the purchase of another, fourth, heavy duty plough system for low seams. In November 2014, deliveries were completed of plough system 4 for wall no. 1/I/385 which enables exploitation of mining walls that are 318 m long; the installation of the system has started.

Purchases of machines, devices and finished goods – the machines and devices for the total amount of PLN 40,451,000 were purchased and assembled. The most important ones included: overhead diesel locomotives, track diesel locomotives, belt conveyor, scraper conveyors, conveyor feeders, sifters, cooling devices, roadheading machines, mechanised lining sections, hydraulic driller for long holes, equipment for disassembly of gallery lining.

The value of the finished goods that were purchased was equal to PLN 16,294,000. The most important finished goods that were purchased were: finished transport equipment (braking trolleys, hoists, containers, excavated material carriages, transport sets, a wheeled loader), pumps and hydraulic units, electrical equipment (transformer stations, motors, meters), and other finished equipment (mechanized lining of the gallery and wall intersection, fans, a mobile winder for conveyor belts, a loader for falling wall material, equipment for pulling belt conveyor turning stations, tools constituting fixed assets).

The operational projects included repairs and upgrades of machines and equipment, construction and upgrade of building structures and systems, as well as investment in preparation of new excavations in the Bogdanka, Nadrybie, and Stefanów Fields.

Table 182 The value of investment outlays on the excavations in the four quarters of 2014

Excavations and works - total	Depreciation method	Length [m]	Value of the coal from the excavations [PLN '000]	Full value of the investment outlays [PLN '000]	Value of the investment outlays [PLN '000]
Wall excavations	natural	26,301.3	92,487	332,834	240,347
Basic excavations	straight-line	3,506.2			
Reconstructions	straight-line/natural	2,384.2			

In 2014, galleries were made in the excavations of seams 382, 385/2, and 391 in order to open up new walls for mining.

With regard to the preparatory excavations in the Bogdanka Fields, driving of an access cross-heading was finished and driving of the transport gallery 1fB was started. In the Nadrybie Field, in accordance with the plan, driving of the gallery 6fN was completed, the gallery 5fN and the parking gallery III were completed, and driving of the gallery 1fN started. In the Stefanów Field, the ventilation gallery 1/VIII/385 was extended and extension of the parking gallery 1/VIII/385 started.

Wall excavations - driving of the bottom gate 5/VII/385 and the bottom gate 4/VII/385 started so as to provide access to field VII. Driving of bottom gate 3/VIII/385 was continued and driving of the top gate 2/VIII/385 and the bottom gate of wall 4/VIII/385 to provide access to field VIII started.

Driving of the bottom gate of wall 8/IV/385 was completed and driving of the top gate of wall 8/IV/385 was started in field IV in Bogdanka. In field I in Bogdanka, driving of the top gate and the bottom gate of wall 1/I/385 was completed and driving of the bottom gate 2/I/385 was started. In field VI in Nadrybie, driving of the top gate of wall 3/VI/385 was completed, driving of the bottom gate 4/VI/385 was started, and driving of top gate 5/VI/385 and bottom gate 6/VI/385 was continued. In seam 391 in Nadrybie, driving of top gate 1/V/391 was completed and driving of bottom gate 2/V/391 was started.

In total, 29,808 m of excavations were made.

Reconstruction of mine excavations was continued. In total, 2,384 m of excavations were reconstructed.

Upgrades and repairs of machines and equipment - two overhead diesel locomotives, Bevex type, three roadheading machines, type EL 160 LS, and an AM-75 heading machine were upgraded. One AM-75 heading machine was repaired and periodic repairs of 119 coal wagons were performed.

Enlargement of the mining waste neutralization facility - technical acceptance of machines, equipment, and systems was performed (Stage I, Part I). In October, trial operation of machines, equipment, and systems was completed and on 15 October 2014, a final acceptance report was signed for the works completed under the signed contract.

Facilities of the switching station and the 110/6 kV substation - 1 2014 construction works (handover for use) related to the upgrade of the 110/6 kV substation of the main transformer-distribution station (MTDS) in Bogdanka were performed:

1) stage C (Q1 and Q2) covering:
   - bays 4 and 6, and the 110/6 kV 16 MVA T-2 transformer in the 110 kV switching station;
   - replacement and startup of section B of the 6 kV switching station;
2) stage D (Q2 and Q3) covering:
   - bays 7, 8, and 9 and the 110/6 kV 16 MVA T-1 transformer in the 110 kV switching station;
   - replacement and startup of section A of the 6 kV switching station;
3) stage E (Q3 and Q4) covering:
   - bay 10 and the 110/6 kV 25 MVA T-3 transformer in the 110 kV switching station;
   - transformer repair station;
   - fencing of the substation and repair of the control room;
   - new electric energy accounting systems were started for the MTDS in Bogdanka, the TDS in Nadrybie, and the main transformer/supply station in Stefanów.

Upgrade and enlargement of the track system - as a part of repair of the siding track at km 19.000 - 24.000, the bridge on the Świnka river at km 21.221 was upgraded and the height of the railway embankment at km 20.500 - 21.700 was increased to the designed ordinates.

Plan for 2015

Development investments are investments in technical infrastructure, including construction of central air conditioning in the Bogdanka Field, an integrated production management system, obtaining new licences, enlargement of the coal storage yard, and purchase of machines and equipment.

Enlargement of the Mechanical Coal Processing Plant - planting a central reservation and construction of additional machine service platforms.

Central air conditioning of the Bogdanka Field - the plan is to complete at the turn of 2015 and 2016 the construction of the Central Air Conditioning in the Bogdanka Field, including construction of the central air conditioning station with the surface infrastructure, and installation of DN 250 pipelines in shaft 1.2 by the mine's services, as well as installation of equipment and systems in the air conditioning chamber on level 960, installation of secondary water circuit pipelines to the exploitation fields, installation of air cooling units in the exploitation areas, and installation of a water distribution control system in the exploitation areas. The plans for 2015 also include supply of a three-chamber PES feeder, its installation in the air conditioning chamber on level 960, and its startup.

Integrated production management system - the plan is to continue in 2015 the works related to the construction and implementation of solutions pertaining to elements of the integrated production management system, including implementation of software for new computers, implementation of an IT system for planning of production resources and supporting the purchasing processes, upgrade of the INTEGRA system, and development of the facility information system for the new assets. The plans also include development of the geological model of the deposit, implementation of a scheduling system for the mining works, and an Integrating Data Bus.

Enlargement of the mine by a new mining field – in 2015 expenditures will also be made on establishing mining use for excavation of hard coal from a deposit - "K-6, K-7" area, which will involve court proceedings, purchase of a plot of land for construction of the new mining field Cyców, and performance of documentation and analytical works. In the case of the Ostrów mining area, the main expenditures will be intended for obtaining geological information, drilling the OS-4 test hole, purchase of land, and performance of documentation and analytical works. In the case of the Orzechów mining area, the costs will relate to the appraisal of the hard coal deposit - drilling of the OR-1 test hole.

Adaptation of shaft 1.5 for transport of rocks - completion of the design and documentation works, obtaining building permits for the construction of surface facilities in the Nadrybie and Bogdanka Fields. The decision on the commencement of tender proceedings and starting the construction and assembly has been postponed.

Purchase and assembly of longwall systems - the plan for 2015 includes startup of another, fourth, heavy duty plough system for low seams, made by CATERPILLAR.

Plough system - 4 is intended for a wall that is 318 m long (wall 1/I/385) in the Bogdanka Field and is to be started up in April 2015. In November 2014, the deliveries of the plough system - 4 to the Company were completed.

Purchase of machines and equipment to be installed – the item includes: the purchase of new machines and equipment to be installed, with planned outlays equal to PLN 46.60 million, comprises mostly: purchase and installation of dedusters, purchase and installation of overhead diesel locomotives, purchase and installation of mine track locomotives, purchase and installation of extracting machines, purchase and installation of air barrages, purchase and installation of belt conveyors, purchase and installation of scraper conveyors, purchase and installation of cooling equipment, purchase and installation of roadheading machines, purchase of other equipment, purchase of industrial vacuum cleaners, costs of installation of machines and equipment.

Purchase of finished goods - equipment that does not require installation:

- Finished transport goods - these include equipment for transport in overhead rail systems, i.e. a passenger set, a load-carrying beam assembly, transport hoists, braking trolleys, and transport units for the underground rail, i.e. carriages, containers, bins for transport of europalets.
- Hydraulic pumps and units - this group includes impeller pumps for draining of mine excavations, pumps for rock gluing, pumps for feeding the binder, and hydraulic units to supply the drivers and the bolting machines.
- Electrical equipment - the plan includes purchase of mobile transformer stations and electrical motors.

The operational projects included repairs and upgrades of machines and equipment, construction and upgrade of building structures and systems, as well as investment in preparation of new excavations in the Bogdanka, Nadrybie, and Stefanów Fields.

It is planned to build the excavations, hate roads, wall cross-headings and the remaining technological and access excavations, allowing the walls in seams 385/2, 389, and 391 to be mined. There will also be conducted reconstructions of mining excavations.

Upgrades and repairs of machines and equipment - the plan is to perform upgrades of the wall lining GLINIK 10/23, of the LZH-50 Scharf diesel locomotives, of the Bevex overhead locomotives, of the LDS-80 track diesel locomotive, and of the EL 160LS roadheading machines, as well as of hopper scales and overhead machines.

The planned repairs include repair of the JOY 4LS longwall shearer, repairs of heading machines and rail wagons, and repairs of wall conveyors.

Enlargement of the mining waste neutralization facility - in 2015, a majority of the planned outlays will be spent on the purchase of land for successive stages of enlargement of the waste neutralization facility. The remaining costs will be related to continuation of the design works for Stage I Part 2 in connection with the enlargement of the area of Stage I by the newly purchased plot of land no. 289/5, and tree cutting.

Facilities of the switching station and the 110/6 kV substation - in 2015 and 2016, further works will be performed on the upgrade of the 110/6 kV substations - the basic facilities of the Mining Facility and, among other works, on reconstruction of the 110 kV and reconstruction of the 110/6 main transformer/supply station in Stefanów.

Upgrade and enlargement of the track system - continuation of the works related to the reconstruction of the culvert in the iron ditch and performance of earth works to the planned gradeline at km 22+400 to 24+00.

4.2.2 Investments in Subsidiaries

Investments of Łęczyńska Energetyka Sp. z o.o.

Investment execution in 2014

In 2014 Łęczyńska Energetyka incurred expenditure on construction in progress to the amount of PLN 22,802,000, with a major share of the funds allocated towards the construction of the Water Treatment Plant in Bogdanka, which required expenditure in the amount of PLN 15,954,000.

Plans for 2015

The planned investment expenditure of Łęczyńska Energetyka for 2015 stands at PLN 20,021,000. Out of this amount PLN 14,663,000 has been allocated towards the finishing of the construction of a water treatment plant in Bogdanka to process and treat the "underground" mining water generated by draining the LW BOGDANKA coal mine, including the construction of technological connections to the water pressure boosting station and the heating plant premises. At present, works connected with the modernisation of the existing sanitary sewage treatment plant and the rainwater treatment plant, as well as the construction of new facilities for the Water Treatment Plant are being carried out as part of the investment. The Water Treatment Plant is expected to be put to use by the end of May 2015.

Investments of EkoTrans BOGDANKA, RG BOGDANKA and MR BOGDANKA

In 2014 the Subsidiaries, EkoTrans BOGDANKA, RG BOGDANKA and MR Bogdanka, incurred investment expenditure totalling PLN 297,000. These expenses were related to material investments.

4.3 Investments and capital investments of GK LW BOGDANKA S.A.

On 17 April 2014, the Parent purchased 100% of shares in MR BOGDANKA (shares purchased from WARBO S.A.).

In 2014, Łęczyńska Energetyka did not make any significant capital investments. The subsidiary deposited its free assets in bank deposits with maturity dates 1M and 3M. On average, the balance of funds deposited in bank deposits amounted to PLN 15 million.

The value of cash in the possession of the Group at the end of 2014 was equal to PLN 284,313,000, where the amount of PLN 261,095,000 were owned by the Parent. Out of the amount of PLN 284,313,000:

- the amount of PLN 88,832,000 was disclosed in non-current assets;
- the amount of PLN 195,481,000 was disclosed in current assets.

The amount of PLN 88,832,000 covers cash accumulated by the Parent in the Mine Closure Fund and is intended to cover the costs of closure of the mining facility (the cash is kept in a bank deposit).

The amount of PLN 195,481,000 covers cash (cash in hand) kept in short- and medium-term bank deposits (including *overnight* deposits) - the level of the deposits depends on internal forecasts concerning revenue and expenditures. In accordance with the adopted Strategy, the Parent maintains a level of available cash equal to the average monthly revenue (1/12 planned annual revenue). Funds aggregated in the Parent amount to PLN 172,263,000, whereas in the Subsidiaries to PLN 23,218,000.

4.4 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 (bonds). 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.

All loans together with issued bonds (totalling PLN 813,854,000), disclosed in the Group's statement of financial position as at 31 December 2014, accounted for 32.25% of its equity and 18.65% of the balance-sheet total.

4.5 Research and development works and implementation works in the Group

In 2014, the following major research-development and implementation works were performed at the Company:

1. Implementation of the plough coal extraction technique was continued in mining walls with thin seams (1.2-1.7 m thick). In November 2014, wall 3/VI/385, equipped with the new Bogdanka 3 plough system, was opened. The wall is located in the direct vicinity of wall 2/VI/385, where the second plough system started operation. The Bogdanka 1 and Bogdanka 2 plough systems continued operation in the Stefanów Field, on walls 1/VI/385 (division G-1) and 6/VII/385 (division G-4), respectively, ensuring coal winning for shaft 2.1 in Stefanów, which was started up in the autumn of 2012.
2. In 2014, another plough system, Bogdanka 4, was purchased; its requirements and parameters were changed compared to the three previous systems and it is suitable for operation in difficult geomechanical conditions of cap rock and bottom rock present in fields I and II of seam 385/2 located in the northern part of the mining area of the mine. This was the consequence of the lack of technical solutions that ensured the required production level in the case of heading machine systems for low seams, as assumed originally. The new system has a changed (longer) roof bar of the wall lining which better protects a weak roof, a new system for control of the plough head position in relation to the lining system which ensures collision-free extraction when the roof is secured with a mechanized lining system, reduced dimensions of the equipment in the area of the intersection of the wall with the longwall galleries that enable operation in tighter longwall galleries. The new wall will be opened in 2015.
3. In 2014 implementation works for a new device designed for mechanical disassembly of gallery lining during the closedown of the gallery during longwall exploitation were carried out. That device largely improves the safety of work with such difficult mining works as closedown of headings during longwall exploitation, and mechanizes the hard works that had been performed manually. At the end of 2013, the first such device was purchased, and it was used in working with the closedown of the bottom gate of wall No. 1/VIII/385 in division G-1 in Stefanów. I2014 two further such devices were purchased. At the same time construction solutions were developed to improve the operational parameters of the device.
4. In 2014, works were commenced aimed to adapt the plough system for work in the event of geological disruptions in the wall. In 2012-2014, initially on wall 7/VII/385 and then on walls 1/VIII/385 and 6/VII/385, in the Stefanów Field, there were geological disruptions that required extraction of rock because the seam became thinner or suddenly shifted into the roof or the bottom of the wall. The prepared solutions, elaborated together with the manufacturer of the plough system, are intended to adapt the system in two areas: the possibility to better extract hard rocks with the plough and protection of the roof in the event of rock slides and problems with maintaining the roof.
5. In 2014 studies and analytical works were continued, and another evaluation of the mining machine manufacturers was performed with regard to a heavy duty mechanical system for driving gallery excavations using a high-power heading machine and a new driving technology. In the previous years, the basic solutions for the system were elaborated. In 2014, works continued on the selection of the contractor for the first mine face system; however, no contract was signed.
6. In 2014, works were started on a program involving tests of application of an anchor lining in rectangular shaped excavations. A design of the first test section in the startup cross-heading of wall 4/VI/385 in Nadrybie, whose performance was to start in December 2014. Due to the difficult geological-mining conditions in the area of the planned tests, the section was not prepared. Additional tests are planned for 2015.

5. Description of risks, threats and factors which, in the assessment of LW BOGDANKA, will affect the results achieved by the Group

5.1 Integrated system of enterprise risk management

The key objective of the management of LW BOGDANKA's risk is to ensure security of the Company's operation, to ensure effectiveness of decisions focused on the maximisation of profit at an acceptable level of risk.

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 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.

The risk management system includes:

- the Supervisory Board
- the Management Board
- the Enterprise Risk Management Committee
- the Audit Committee of the Supervisory Board
- managers of organisational units – risk owners.

The Management Board has adopted principal rules, procedures and documents serving as a basis for the risk management system at the Company, which include:

1. LW Bogdanka Corporate Risk Management Policy,
2. LW Bogdanka Corporate Risk Management Model – ERM procedures,
3. LW Bogdanka Risk Register,
4. LW Bogdanka Risk Map,
5. List of strategic risks of LW BOGDANKA
6. Programs of strategic risk mitigating measures at the Company.

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.

Diagram 1. LW BOGDANKA S.A. Corporate Risk Management Process

Table 19 Factors affecting the Company's economic and financial standing

No.	Areas of risk factors	Key risks in the areas
1.	Risk factors associated with the Company's social, economic and market environment	– Risk associated with the social and economic situation in Poland and in the world – Risk associated with the economic policy of the state in relation to the hard coal mining sector – Risk associated with the levels of prices for raw materials for power production in Poland and the world – Risk associated with the introduction of the excise tax in relation to coal – Interest rate risk – Risk connected with exchange rates – Risk associated with the impact of current macroeconomic situation on debt financing availability – Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events – Risk of restrictive EU climate policy also with respect to the CO2 emissions – Risk of a decrease in demand for hard coal from the Polish power industry – Risk of hostile takeover of the Group
2.	Risks directly associated with the Company's operations	– Risk associated with the launch of extraction of new deposits by LW BOGDANKA – Technical and technological risk – Risk associated with high costs of technologies applied by the Company – Risk of IT systems malfunctioning – Key customer risk – Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company – Customer insolvency risk

		– Risk associated with the strong position of the trade unions in the Group – Risk associated with retaining and attracting human resources at LW BOGDANKA – Key supplier risk – Risk of unfavourable/inappropriate contractual terms being concluded – Risk of suppliers' price fixing arrangement
3.	Financial risk factors	– Liquidity risk – Insurance risk
4.	Risks associated with environmental protection	– Risk associated with reclamation and mining damage – 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 – Risk associated with management of waste generated after extension of the mining area – Investment risks associated with protected areas
5.	Risk factors associated with proceedings and legal environment	– Risk of change to tax laws – Risk of real estate tax on mining excavations of LW BOGDANKA – Risk associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax – Risk of a change in the law and its interpretation and application – Risk of violating the stock exchange disclosure requirements

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

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 and other.

The financial position of the Group is dependent mainly on the position of the Parent, i.e. LW BOGDANKA. 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. The bottom line may also be adversely affected due to the increasingly difficult situation on the fine power coal market and the possible ownership changes or restructuring of the Parent's main competitors (Silesian mines) – for more information see section 5.2.1.2.

However, owing to long-term sales agreements which guarantee the purchase by the buyers of a specified volume of power coal, the risk of the Parent's financial results deteriorating significantly over a short period of time is low. The potential risk may be substantially exacerbated if the planned ownership changes are introduced, which may have a material effect on the Parent's sales capabilities.

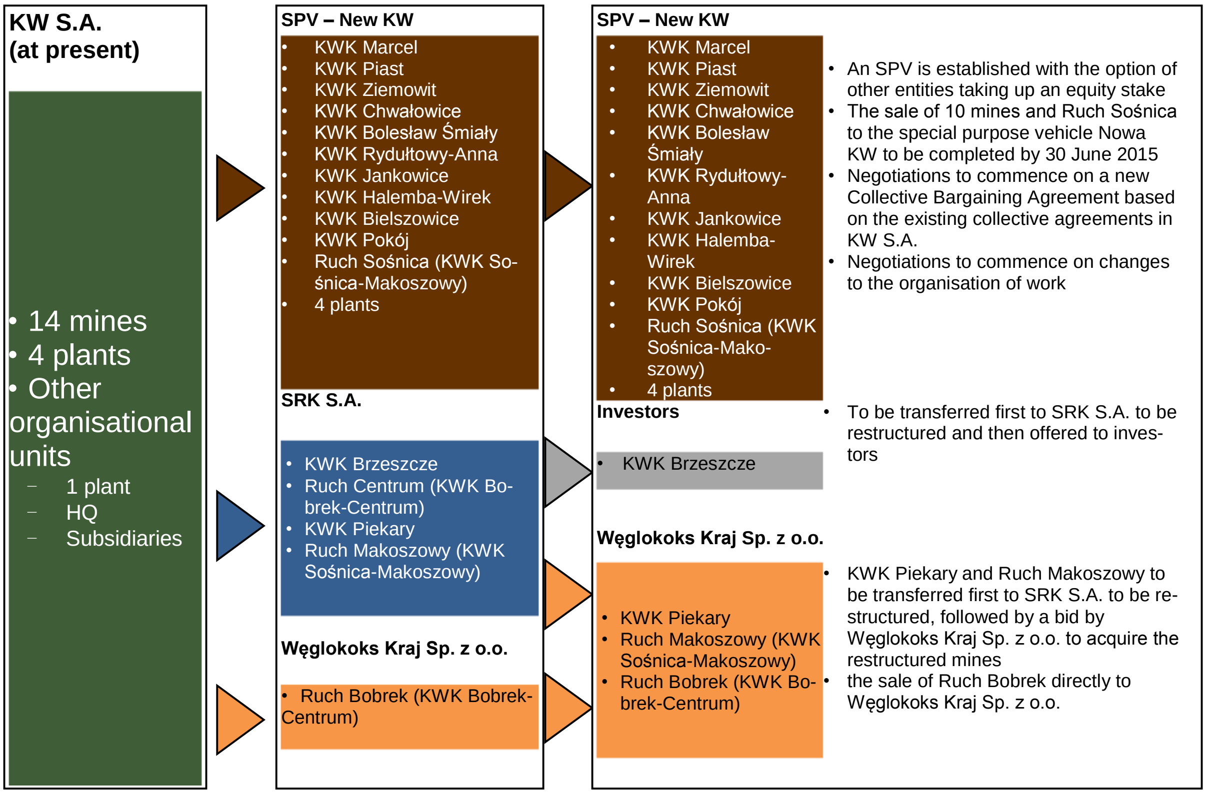
Furthermore, the Parent's bottom line may suffer if the existing taxes or charges (including mining fees) are raised or new ones imposed on hard coal mining.

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

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA market position.

The restructuring plan for Kompania Węglowa (KW) as adopted by the government entails great uncertainty as to the volume of power coal production in Poland and, consequently, the possibilities of its market position. Depending on the choice of a restructuring scenario to be executed, this will affect LW Bogdanka S.A.'s market standing.

Under the Act on the operations of the hard coal mining industry in 2008-2015 of 7 September 2007 in the wording adopted through its amendment of 22 January 2015 and as a consequence of the agreement reached on 17 January 2015 by the government and trade unions, a recovery plan has been developed which stipulates as follows:



Source: Presentation of KW S.A. – School of Underground Mining Krakow, February 2015

The initial government proposal (of 8 January 2015) stipulated that production be discontinued in four financially unprofitable mines, a move aimed at reducing the volume of the coal extracted by Silesian mines. However, under the present restructuring plan for KW, the oversupply of coal on the domestic market is set to continue. The mines initially earmarked for closure will now be transferred, partly through SRK, to Węglokoks Kraj and to an investor, potentially one of the energy companies with a majority stake held by the State Treasury.

The planned actions with respect to the fate of the remaining Nowa KW mines and the shareholding structure of the special purpose vehicle (SPV) are yet to be announced. Scenarios where the restructuring process of Kompania Węglowa S.A. would provide for the involvement of energy companies could prove problematic for the Company, as it would limit significantly the market for LW Bogdanka S.A. along with other coal producers and would force the Company to search for buyers in other energy holdings or even beyond the energy sector.

The implementation of the government's restructuring plan for KW S.A. involves the provision of state aid. It should be noted that under Council Decision 2010/787/EU state aid is permissible only to facilitate the closure of unprofitable mines, rather than to carry out their restructuring. It is to be noticed that the state aid for liquidation may be granted until 31 December 2018. At this juncture it cannot be determined whether the proposed government assistance will be classified by the European Commission as permitted state aid.

It should also be noted that the acquisition by Węglokoks of the majority of KW S.A.'s mines will be supported by the Entrepreneurs' Restructuring Fund (in accordance with press releases, ERF has transferred PLN 600 million to Węglokoks). The granting of support in the form of an increase in share capital is contingent upon a wide range of factors, including the satisfaction by the entity receiving such support of the so-called private investor test, justifying the investment by the foreseeability of obtaining a return. Both the decision permitting state aid and the support given to the acquisition of the mines by Węglokoks or another investor may adversely affect the Company's standing. However, until the details of the recovery plan are made public, its nature and significance are at present difficult to assess.

Should the restructuring plan go ahead as provided for in the agreement, it is likely that the current production of KW S.A. will be concentrated in the most cost-competitive mines. The introduction of additional changes related to production and limiting extraction to 6 days a week in some of those mines will enable KW S.A. to reduce unit costs. The decision to abandon the closure of unprofitable mines and the need to further subsidise them, directly or through entities with the majority stake held by the State Treasury, poses substantial risk of the oversupply of coal on the domestic market remaining at the current level or even increasing. Irrespective of the potential reduction of unit costs by KW S.A.'s mines, these costs shall remain above those recorded by LW BOGDANKA, who has been a leader with respect to costs for many years.

In view of high fixed costs in mining industry, the most natural step to reduce unit cost will be to increase production. Such increase in production will be possible thanks to new owners providing financial means for necessary investments (modernisation and preparatory works) and the introduction of a 6-day working week.

With the demand declining, the growth in output will result in steady increase of coal mounds, oversupply and price competition (as in 2012-2014), selling coal largely below the costs of production.

Consolidation of energy companies is also being considered. Irrespective of the scenario executed, this process may boost the bargaining power of LW Bogdanka's buyers due to aggregate demand.

If the above scenarios materialise, the Company's buyer portfolio will need to be readjusted to incorporate heat plants and combined heat and power plants located much further away from the mines, industrial plants or even expanding abroad, which may pose new risk to the Company.

The decline in demand for fine power coal may continue until 2020, which will also affect LW BOGDANKA's coal pricing policy.

This is due to:

- further drop in coal consumption by industry and heat generation plants resulting from the IED Directive;
- a rise in efficiency of electrical power generation from coal owing to new power units;
- the development of gas co-generation in newly executed investments in heating plants;
- further, albeit slower than in the past, development of RES;
- electrical power imports (Germany, Sweden);

In light of significant changes to operational circumstances, the Company's Management Board presented suggested adjustments to the Strategy in section 4.1 herein.

The Company shall monitor the process of implementing the restructuring process in KW S.A. and react in line with the available legal measures to possible granting of illegal state aid.

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

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

The impact on domestic coal prices will also depend on the execution of one of the proposed variants of Silesian mines' restructuring, discussed in section 5.1.1. Risk associated with the economic policy of the State in relation to the hard coal mining sector. If further state aid is provided, there is tremendous risk of restricting free competition on the hard coal market, as subsidised entities will sell coal largely below the costs of its production. Such a scenario may adversely affect the prices of entities which do not benefit from state aid, such as LW Bogdanka.

Risk associated with the imposition of coal excise tax

As of 2 January 2012 the provisions of the Excise Tax Act of 6 December 2008 came into force. Under said provisions coal products sold for heating purposes are effectively taxed with excise duty. The Act referred to above and the relevant implementing regulations, despite providing for an extensive range of excise tax exemptions, including both electrical power generation and heat and other selected industry sectors, as well as individual coal buyers, have resulted in a greater number of formal requirements as regards documenting the sale of excise tax-exempt coal.

However, the risk to the Company's operations is limited owing to the fact that LW BOGDANKA sells most of its coal volumes for electrical power generation purposes and the new domestic excise tax regulations provide for an extensive range of excise tax exemptions, including both electrical power generation and heat and other selected industry sectors, as well as individual coal buyers.

The Company mitigates the excise tax risk by providing excise tax 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 process, by introducing in trade contracts provisions that enable the transfer of the potential excise tax burden to the buyer in case excise tax is imposed on the transaction.

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 risk of material increases in interest rates in the nearest future is low and has a limited bearing on the financial standing of the Group.

This potential risk level may increase in the case of a further growth in debt financing in the face of the more and more difficult market of fine coal (higher bank margins).

Risk associated with changes in exchange rates

The Risk associated with changes in exchange rates applies to the Company due to the necessity to purchase specialist equipment, available only at international manufacturers and may occur in the event of exporting coal abroad. The Company hedges itself against foreign exchange risk by entering into forward transactions. For more information see section 4.8 of the Report.

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

Currently the LW BOGDANKA Group finishes a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds and debt financing (currently totalling PLN 813,854,000).

The current interest-bearing debt (loan and the issued bonds of the total value of PLN 813,854,000) accounted for 32.24% of Company's equity and 18.65% of the balance-sheet total.

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

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

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 set further objectives: 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.

As a consequence of actions taken by the Ministry of Economy aimed at supporting domestic coal producers by restricting coal imports and unfair practices in trading in imported coal, the Act of 10 October 2014 was adopted "amending the act on the system of monitoring and controlling the quality of fuels and some related acts". Under the amended Act the competent minister in charge of the economy will specify by way of a regulation the quality requirements for solid fuels, with a particular focus on limiting greenhouse gas emissions. Further legislative work is underway to amend the Energy Law, introducing a system for licensing coal trading. The Group examines the risk of passing new regulations which would set rigorous coal quality standards or rigorous emissions standards. Contrary to the intentions of the Ministry of Economy, the introduction of new regulations may pose the risk of limiting the sales of coal also by domestic producers. The Group is actively involved in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers.

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.

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. LW BOGDANKA has long-term contracts which limit 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 Company 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.

A mild winter coupled with a decline in demand for energy led to an increase in the volume of coal remaining on coal mounds at commercial power plants. This may translate into a drop in the buyers' demand for coal in the nearest future. The downward trend affecting the demand for fine power coal may continue until 2020, which is certain to impact LWB's coal pricing policy.

This is due to:

- a further drop in coal consumption by industry and heat generation plants resulting from the IED Directive;
- a rise in efficiency of electrical power generation from coal owing to new power units;
- the development of gas co-generation in newly executed investments in heating plants;
- further, albeit slower than in the past, development of RES;
- electrical power imports (Germany, Sweden).

Risk of hostile takeover of the Group

As a result of its IPO on the Warsaw Stock Exchange, Lubelski Węgiel BOGDANKA 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 became a private entity, almost 100% shares of which can be subject of trade on the WSE. This situation poses a risk of the so-called hostile takeover. The Company is implementing its investment program (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, and consequently, the achievement of better results as well as technical and economic and financial indices. The prospects of such a growth, together with the lack of full economic effects prior to the program completion, 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. Further, activities aimed at increasing Company's raw material potential and securing perspective for its development are significant.

5.1.1 Risks directly associated with the Group's operations

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 (PD Co being a part of a capital group established by the Australian Company Prairie Downs Metals) in the coal deposits in the Lublin Coal Basin. Some of those entities have been granted a licence to conduct prospecting and mining works in areas adjacent to LW BOGDANKA S.A. Consequently, these entities may in the near 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 LW BOGDANKA was granted an exploration licence for the K-3 area (south of the present Puchaczów V area) and a prospecting licence for Ostrów (north of the present Puchaczów V area) and Orzechów areas. In September 2014 LW Bogdanka was refused an exploration licence for K-6 and K-7 areas, where another entity holds a prospecting licence. A petition for another review was filed and also rejected. The Company has taken further steps to obtain mining licences for K-6 and K-7 (filing a lawsuit with administration court), as well as exploration licences for the Ostrów and Orzechów areas.

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 risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and therefore on the financial results achieved by the Group in the future. The Group stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that the mine uses the longwall system. Currently coal is extracted 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 been constructed in Stefanów. Raw coal reservoirs are also located on the surface. It should also be pointed out that the Group uses advanced mining equipment and machines in its mining operations. The Group conducts intensive research and development work aimed at increasing the productivity of its operations, introducing solutions with a high degree of technical and technological reliability and increasing the safety of the work environment. These measures will significantly reduce the 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. Events of such disruptions in mining seams being laid out took place in November and December 2012 in wall 7/VII/385, and in September 2014 in wall 6/VII/385 in Stefanów.

Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by LW BOGDANKA involves the use of highly specialised machines and equipment produced only by several producers in the world, 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 Company's 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 Company's development strategy.

The longwall coal ploughing technology that the Company has been implementing for a few years allows high-capacity mining in thin coal deposits of as little as 1.2 metres (in 2010, the first longwall using this technology was put in operation). 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, to be performed in 2014. In 2014 an agreement for the supply of the fourth ploughing system, to replace an earlier coal-cutting for low seams (no solutions guaranteeing the efficiency required by the Company). In addition to high costs of purchasing such equipment, there is a risk of difficulties in access (costs) 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 excavations (rock mass pressures increase), the natural temperature of rock, and some risks increase, which may result in an increase in coal mining costs.

Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of computer systems may adversely affect the Group's ongoing operations and therefore affect its future financial results. 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" 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.

Key customer risk

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

The Company has based its sales mainly upon the signed long-term agreements. Furthermore, the Company has concluded conditional agreements with Enea Elektrownia Kozienice S.A., Energa Elektrownie Ostrołęka S.A. and Elektrownia Północ Sp. z o.o. for the purposes of future power coal supplies to new power units which, once the conditions precedent are met, will guarantee sales of coal at least until 2036. The conditional nature of the agreements for the purposes of future power coal supplies to the new power units under construction means that they are contingent upon the successful closing of financing for the new power units, therefore there is a risk that some of those contracts may fall through and the Company might be forced to enter into talks with other 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 S.A. 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 future supplies for which the Company assumes a high degree of risk related to failure to implement the project due to the requirement to ensure financing for the power unit C investment. The agreement is currently in the course of the 3 years' notice period. The terminated agreement does not apply to the current supplies to Energa Elektrownie Ostrołęka S.A., which take place in accordance with the terms of a separate agreement.

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

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 Company mitigates this risk by looking for new customers who would diversify alternative sale options and would for example use the Company's coal to mix it with imported or domestic coal from other producers.

The risk of losing key customers may be exacerbated depending on the restructuring scenario for Silesian mines adopted by the Polish government and possible attempts to ensure the market for the coal produced there, on the basis contrary to the arm's length principle (for more information see section 5.1.1. Risk associated with the economic policy of the State in relation to the hard coal mining sector). Once the market equilibrium is restored, the risk will be largely mitigated due to LW Bogdanka's lowest unit mining cost in the sector and, consequently, the competitiveness of the coal prices offered.

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

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

- consolidation processes in the mining and power industry (vertical and horizontal consolidation within large energy groups) leading to the creation of powerful entities in terms of capital which determine how the domestic power coal market will develop (including announcements of the Ministry of State Treasury regarding the consolidation of existing power groups and acquisition of shares in Nowa Kompania Węglowa by the power groups or their acquisition plans with respect to the mines restructured under SRK S.A.);
- 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 program;
- large volumes in stock held by competitive coal producers and by electricity producers;
- poor financial standing of competitive coal producers (KW S.A., KHW S.A., JSW S.A.); and
- the resulting sales strategy of the Company's competitors that focuses on maintaining a healthy cash flow rather than on profitability.

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage. In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition. Owing to its location in the Lublin Coal Basin, LW Bogdanka S.A. finds itself among the suppliers offering the lowest costs to key customers, due to the so-called transportation allowance in the south-eastern part of Poland. LW Bogdanka S.A. is also favoured to a certain extent by its distance from the Upper Silesian Coal Basin, currently responsible for the oversupply of power coal, which until recently secured the demand for LWB's coal and its profit margins.

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

In a sustainable market the risk associated with competition by other power coal producers and the relatively low quality of the coal produced by the Company is remote. The Company's operations so far aimed at ensuring a steady disposal of increasing yield have been successful, as reflected by the rising share in the power coal market as of 2011.

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of LW BOGDANKA payable by its customers and the surplus of Company's receivables in comparison to liabilities. As of the end of 2014, trade debtors and other current accounts receivable of the Company accounted for 6.89% of the carrying value and 14.93% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 85.13%.

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

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. 64% of the employees (in LW there are four trade union organisations, associating 67% 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. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Group could affect the operating activities conducted by the LW BOGDANKA Group.

Risk associated with retaining and attracting human resources for LW BOGDANKA

The LW BOGDANKA Group's demand for human resources results from the strategy and no recruitment is anticipated in the first half of 2015. Any possible HR needs essential from the point of view of operating a coal mine, chiefly for electrical and mechanical departments, where, due to the work schedule of brigades/departments, it is impossible to complement the staffing by employees of external companies (e.g. RG and MR Bogdanka), shall be supplemented in a recruitment process.

Due to ongoing works on amendments to the Collective Bargaining Agreement which shall consider the change of work organisation and remuneration, there is a risk that an increased number of experienced employees entitled to retirement benefits will leave the Company. The fear of losing retirement benefits upon rules applicable in the previous provisions of the Collective Bargaining Agreement, the anniversary award and other benefits, as well as reluctance to introduce any 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 until a little later. These are especially valuable employees because of their knowledge and experience. 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.

Key supplier risk

The specific nature of the LW BOGDANKA Group 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.

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 Group is taking the following measures to minimise the probability of this risk occurring and its impact:

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

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

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.

5.1.2 Financial risks

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 31 December 2014 amounted to PLN 195,481,000. The current liquidity ratio for the Group amounted to 1.06, and quick liquidity ratio – 0.84. In the entire 2014 net flows from operating activities generated by the LW BOGDANKA Group, despite price drops, were comparable to those of the previous year. As at the day of submitting the Report, there is no risk of 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, the Parent obtained debt financing in the form of an overdraft credit facility and a bond issue program. The issue is discussed in more detail in sections 3.5 and 3.8 of the Report.

Insurance risk

The Group is exposed to insurance risk both within standard scope applicable to all entities conducting business activity, and within the scope typical for the mining sector. 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 held 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.

5.1.3 Risks associated with environmental protection

Risk associated with reclamation and mining damage

The LW BOGDANKA Group is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be more strict. Any possible tightening of the standards in this respect may result in higher costs. As the mining area of the Group 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.

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 Company must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment (including BAT requirements - Best Available Techniques), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. As at the date of submitting the Report, the Company's operations are conducted in compliance with law and BAT requirements. The Group holds all permits required in connection with its operations, including a permit for operating a mining waste utilisation facility. 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 reducing possible acoustic burdens 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 with respect to emissions to the air, 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 Mining Waste Act, in 2012 LW BOGDANKA obtained a permit for operating a mining waste utilisation facility. Therefore, the Group's operations in this respect have been adapted to the new regulatory requirements. For Łęczyńska Energetyka, in order to identify the risk of possible failure to fulfil emission standards after 2016, an analysis of the impact of emissions on the atmosphere was carried out. It forms a basis for determining the scope of modernisation of the systems in order to limit the risk connected with a possibility of fines or increased payments for the economic use of the environment after 2016 with a possible simultaneous growth in demand for heat energy.

In order to mitigate 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.

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. As of 31 December 2014, the amount of waste was 5,624,000 tonnes. In 2014 approx. 45% 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 up to 4 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 facility is currently being expanded as part of Stage 1. The related works constitute a multi-stage investment and require adopting resolutions on amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements, as well as decisions and permits for construction and exploitation of the environment. A great problem is a fact that as approx. 90% of land is owned by individual farmers, therefore the mine will be forced to purchase those plots. Puchaczów Commune authorities, upon application of the Company, introduced changes to planning documents related to the area where the waste yard is to be eventually located. The area where the facility is to be built is already included in the adopted Conditions and Spatial Development plans for the Puchaczów Commune. Local community expressed its approval for the investment. Moreover, talks with the plot owners were already held, and preliminary consents for the purchase of plots were obtained. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the financial result.

In order to limit the risk related to the necessity of acquiring waste utilisation sites, works connected with increasing the height of the existing mining waste utilisation facility are performed by the Company. 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. The Company has also purchased a plot of land with the area of approx. 9.0 ha, adjacent to the mining waste treatment facility, which is partly (over 6.0 ha) allocated for a mining waste dump in the land use plan developed by Puchaczów Commune. As this is a woodland area, the Company needs to file a request with the Puchaczów Commune Office to obtain a permit for logging based on a dendrological survey. This will constitute preparatory works for extending the mining waste treatment facility.

Investment risks associated with protected areas

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

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

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

5.1.4 Risk associated with proceedings and legal environment

Risk of change to tax laws

The lack of stability and transparency of the Polish tax system, resulting from constant changes to the laws in force and incoherent interpretation of the tax law, may cause uncertainty with regard to the end result of the financial decisions taken by the Group. Frequent amendments to tax regulations and rigorous and stringent provisions do not offer an incentive for decision-making. Legislative changes may generate all kinds of risks. Tax returns submitted by the Group may subject to inspection of fiscal authorities which, in the event of any irregularities, may calculate tax arrears including interest. Tax returns submitted by the Group may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions carried out in 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.

To minimise the above risk the Group monitors on an ongoing basis any amendments to tax laws and has implemented an appropriate training policy so as to ensure that its employees are as competent as possible in this area. Furthermore, any new issues that arise are compared by the Group with the latest tax rulings and relevant case law, as well as discussed with consulting companies. The Group also follows its own Transfer Pricing Policy, which lays down the fundamental conditions and principles for pricing the transactions concluded within the Group.

Despite these measures it is not possible to eliminate risk entirely, partly due to the ambiguity in the interpretation of tax laws; however, the Management Board of the Group believes such risk to be largely limited.

Risk of real estate tax on mining excavations of LW BOGDANKA

In accordance with the Lubelski Wegiel BOGDANKA's strategy, the value of underground excavations and the infrastructure located in these excavations have not been included in the LW BOGDANKA's real property tax returns for tax assessment purposes.

In 2013 and 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 the decisions issued, until the end of 2012, by the Heads of Puchaczów, Cyców and Ludwin Communes, 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 excavations, including the infrastructure located within those excavations. However, the decisions issued by authorities of first instance beginning from 2013, specifying the amount of real property tax due from the Company for 2008-2012, issued the authorities of the first instance determined that real property tax was only due for the following infrastructure components located in underground mining excavations: excavation linings, pipelines, slackline cableway routes and floor-mounted railways, which means that the real property tax base fails to include the value of underground mining excavations in terms of the cost of their drilling. The decisions issued by the authorities of the first instance regarding the real property tax due for 2008 were accepted by the Local Government Appellate Court – it sustained in its decisions the decisions of the authorities of the first instance (and did not recognise appeals raised by the Company). Similarly, the Provincial Administrative Court in Lublin did not recognise the Company's complaint on the above decisions issued by the Local Government Appellate Court; however the Provincial Administrative Court in Lublin qualified all the above mentioned components of infrastructure as structures in the form of technical grids.

The position of authorities of first and second instance stated in their decisions concerning the real property tax for 2008-2012 as well as the position of the Provincial Administrative Court regarding tax for 2008, clearly reflect 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 excavations is, from the constitutional perspective, unacceptable. Underground excavations 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 excavations are not subject to real property tax either separately (i.e. as excavations in the physical sense), or in combination with the infrastructure located in them (i.e. as excavations 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 excavations 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 excavations, 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 authorities of first instance in their decisions regarding the real property tax liabilities for 2008-2012 as well as the positions of the Local Government Appellate Court and the Provincial Administrative Court regarding tax for 2008 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 issued until the end of 2012.

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

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

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

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

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

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

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

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

The provisions of law in Poland are frequently changed. Interpretations of the law and the way in which it is applied are also changed. Laws can be changed to companies' advantage, but changes can also have adverse consequences. Changing laws and varying interpretations, particularly with regard to tax law, geological and mining law, the law governing business activity, labour and social security law and the law relating to securities, could have adverse consequences for the Group's companies. Particularly frequent are interpretational changes in tax laws. There is no consistency in the practice of tax authorities or in case law relating to taxation. If tax authorities adopt an interpretation of tax law which differs from that adopted by the Group's companies or if the Mining Law introduces new requirements to be imposed on the Parent, i.e. LW BOGDANKA, it could lead to deterioration of its financial situation and as a result negatively affect the Company's bottom line and the Group's development prospects.

In order to minimise the above risk, the Group regularly employs the services of legal advisors and consulting companies, as well as seeks opinions of various bodies specialising in a given subject matter. Where applicable, the Group also files for binding interpretations of law. Despite these measures it is not possible to eliminate risk entirely, however the Group's Directors believe such risk to be largely limited.

Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (uniform text, Dz. U. [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 and by permanent monitoring of the Company's activity from the perspective of disclosure requirements.

6. OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2014

6.1 Holdings of shares in LW BOGDANKA as well as shares in related entities of LW BOGDANKA by the management and supervision personnel of LW BOGDANKA

The table below presents the total number and par value of shares of LW BOGDANKA as well as shares in related entities of LW BOGDANKA held by the management and supervision personnel of LW BOGDANKA, as of the date of submitting the Report and as of the date of publishing the previous interim report:

Table 20 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management and the Supervisory Boards of LW BOGDANKA*

The Management Board					
	Number of Company shares as at 12 March 2015	**Par value of shares (PLN)**	**Number of Company shares as at 6 November 2014**	**Par value of shares (PLN)**	**Number of shares in Subsidiaries**
Zbigniew Stopa	5,703	28,515	5,703	28,515	0
Roger de Bazelaire	0	0	0	0	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Krzysztof Szlaga	0	0	0	0	0
Supervisory Board					
	Number of Company shares as at 12 March 2015	**Par value of shares (PLN)**	**Number of Company shares as at 6 November 2014**	**Par value of shares (PLN)**	**Number of shares in Subsidiaries**
Witold Daniłowicz	0	0	0	0	0
Eryk Karski	0	0	0	0	0
Stefan Kawalec	0	0	0	0	0
Raimondo Eggink	0	0	0	0	0
Robert Bednarski	0	0	0	0	0
Dariusz Formela	0	0	0	0	0
Tomasz Mosiek	0	0	0	0	0
Michał Stopyra	0	0	0	0	0
Total	**Number of Company shares as at 12 March 2015**	**Par value of shares (PLN)**	**Number of Company shares as at 6 November 2014**	**Par value of shares (PLN)**	**Number of shares in Subsidiaries**
	7,865	**39,325**	**7,865**	**39,325**	**0**

* According to the statements of the members of the Company's Management Board and Supervisory Board

The members of the Company's Management and Supervisory Boards do not hold any shares in the Subsidiaries: Łęczyńska Energetyka Sp. z o.o., EkoTRANS Bogdanka Sp. z o.o., RG Bogdanka Sp. z o.o. and MR Bogdanka Sp. z o.o.

6.2 Information on agreements known to LW BOGDANKA and Subsidiaries as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the Company and its Subsidiaries have no information on agreements (including also those concluded after the balance-sheet date), as a result of which changes may occur in the future in proportion of shares held by the existing shareholders.

6.3 Acquisition of the Company's own shares

In 2014 the Company did not acquire any of its own shares.

7. PERSONNEL INFORMATION

7.1 Employment at the Group

Table 21 Employment at the Lubelski Węgiel BOGDANKA Group

Item		Employment at the year end						Structure	Change 2014/2013
		2009	2010	2011	2012	2013	2014	%	%
Total									
Group total		**4,016**	**4,087**	**4,303**	**4,705**	**5,377**	**5,795**	**100**	**7,77**
including:	LW BOGDANKA S.A.	3,885	3,968	4,184	4,587	4,768	4,930	85.07	3.40
	Łęczyńska Energetyka Sp. z o.o.	131	119	119	118	116	114	1.97	-1.72
	EkoTrans Sp. z o.o.	-	-	-	-	2	2	0.03	-
	RG Bogdanka Sp. z o.o.	-	-	-	-	491	532	9.18	8.35
	MR Sp. z o.o.	-	-	-	-	-	217	3.75	-
White-collar workers									
Group total		**589**	**589**	**640**	**665**	**707**	**741**	**12.79**	**4.81**
including:	LW BOGDANKA S.A.	549	564	596	621	643	665	11.49	3.42
	Łęczyńska Energetyka Sp. z o.o.	40	43	44	44	43	42	0.72	-2.33
	EkoTrans Sp. z o.o.	-	-	-	-	2	2	0.03	-
	RG Bogdanka Sp. z o.o.	-	-	-	-	19	21	0.36	10.53
	MR Sp. z o.o.	-	-	-	-	-	11	0.19	-
Blue-collar workers									
Group total		**3,427**	**3,480**	**3,663**	**4,040**	**4,670**	**5,054**	**87.21**	**8.22**
including:	LW BOGDANKA S.A.	3,336	3,404	3,588	3,966	4,125	4,265	73.60	3.39
	Łęczyńska Energetyka Sp. z o.o.	91	76	75	74	73	72	1.24	-1.37
	EkoTrans Sp. z o.o.	-	-	-	-	-	-	-	-
	RG Bogdanka Sp. z o.o.	-	-	-	-	472	511	8.82	8.26
	MR Sp. z o.o.	-	-	-	-	-	206	3.55	-
Underground workers									
Group total		**2,838**	**2,895**	**3,010**	**3,343**	**3,985**	**4,319**	**74.53**	**8.38**
including:	LW BOGDANKA S.A.	2,838	2,895	3,010	3,343	3,515	3,641	62.83	3.58
	Łęczyńska Energetyka Sp. z o.o.	-	-	-	-	-	-	-	-
	EkoTrans Sp. z o.o.	-	-	-	-	-	-	-	-
	RG Bogdanka Sp. z o.o.	-	-	-	-	470	525	9.06	11.70
	MR Sp. z o.o.	-	-	-	-	-	153	2.64	-

2014 brought a 7.77% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent was caused by new hirings in connection with the increase in the production capacity.

In 2014 the personnel employed at the Parent accounted for 85.07% of total employment in the Group. Workers accounted for 73.60% of all employees. In comparison with 2013, the number of underground staff went up by 126 people, i.e. 3.85%.

Underground personnel constituted the main group employed in the Group, i.e. 74.53%.

7.2 Salaries and wages in the Group

The average monthly salary in the Group stood at PLN **6,814.77** gross and was by 3.24% lower than the average remuneration in 2013.

Table 22 Salaries and wages in the LW BOGDANKA Group

Item		Average salary (PLN)*			Change %
		2012	2013	2014	2014/2013
Total staff					
TOTAL		**6,884.45**	**7,042.75**	**6,814.77**	**-3.24**
including :	LW BOGDANKA S.A.	6,967.99	7,211.35	7,373.90	2.25
	Łęczyńska Energetyka Sp. z o.o.	3,755.31	3,976.30	4,332.84	8.97
	EkoTRANS BOGDANKA Sp. z o.o.	-	7,982.25	7,491.24	-6.15
	RG BOGDANKA Sp. z o.o.	-	2,947.86	3,101.59	5.21
	MR Bogdanka Sp. z o.o.	-	-	3,147.93	-
Full-time employees					
TOTAL		**9,158.33**	**9,424.10**	**9,431.09**	**0.07**
including :	LW BOGDANKA S.A.	9,407.97	9,722.49	9,894.88	1.77
	Łęczyńska Energetyka Sp. z o.o.	5,638.35	6,016.05	6,016.12	0.00
	EkoTRANS BOGDANKA Sp. z o.o.	-	7,982.25	7,491.24	-6.15
	RG BOGDANKA Sp. z o.o.	-	4,891.73	5,572.13	13.91
	MR Bogdanka Sp. z o.o.	-	-	5,266.49	-
Blue-collar workers					
TOTAL		**6,506.34**	**6,651.19**	**6,421.64**	**-3.45**
including :	LW BOGDANKA S.A.	6,581.66	6,812.39	6,981.79	2.49
	Łęczyńska Energetyka Sp. z o.o.	2,683.82	2,767.24	3,339.59	20.68
	EkoTRANS BOGDANKA Sp. z o.o.	-	-	-	-
	RG BOGDANKA Sp. z o.o.	-	2,807.87	2,996.80	6.73
	MR Bogdanka Sp. z o.o.	-	-	2,909.24	-

* payroll fund charged to the Company's costs

The Group was increased by a new subsidiary: MR Bogdanka sp. z o.o. with registered office in Bogdanka from 1 April 2013.

LW BOGDANKA S.A.'s Management Board exercises ongoing supervision over the share of payroll costs in the total cost of coal production. In the year in question the relationship between the pay increase rate and work efficiency rate is deemed correct.

7.3 The value of remuneration, bonuses or benefits, including those granted under incentive or bonus schemes based on LW BOGDANKA's capital, paid out, due or potentially due to the Management Board and Supervisory Board Members

Management Board

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

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

Depending on financial results and the performance of other tasks, the Management Board Members may be given an annual bonus in the maximum amount of 30% of their basic annual remuneration for the year preceding the year in which the award was granted.

The total gross remuneration paid to the Members of the Management Board in 2014 amounted to PLN 3,441,753.24. For the performance of their duties at the Company, Members of the Management Board were given remuneration only on account of employment agreements.

- Zbigniew Stopa PLN 1,019,288.90
- Waldemar Bernaciak PLN 722,732.30
- Yves Marie Gerard Roger de Bazelaire de Boucheporn PLN 895,431.30
- Krzysztof Szlaga PLN 804,300.74

The total gross remuneration paid to the Company's proxies in 2014 amounted to PLN 1,643,430.30. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

Supervisory Board

Members of the Supervisory Board shall be entitled to monthly remuneration in the amount defined by the General Shareholders Meeting. The Company shall cover the costs incurred by the members of the Supervisory Board in connection with their performance of duties, and in particular the cost of travel to take part in the Supervisory Board's meeting, accommodation and subsistence, as well as costs incurred in connection with exercising individual supervision.

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

Total gross remuneration paid in 2014 to the Supervisory Board Members for the performance of their duties at the Company amounted to PLN 930,000.00, including:

- Witold Daniłowicz - PLN 156,000.00
- Eryk Karski - PLN 133,200.00
- Stefan Kawalec - PLN 132,000.00
- Robert Bednarski - PLN 110,400.00
- Raimondo Eggink - PLN 110,400.00
- Tomasz Mosiek - PLN 110,400.00
- Dariusz Formela - PLN 88,800.00
- Michał Stopyra - PLN 88,800.00

In 2014 one Member of the Management Board of LW BOGDANKA received remuneration for the performance of duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

- Zbigniew Stopa PLN 14,280

Other Members of the Management Board and Supervisory Board of LW BOGDANKA did not receive any remuneration for the performance of duties at the Company's Subsidiaries.

Resolution No. 26 of the Annual General Shareholders Meeting of 4 July 2013 introduced the Management Options Scheme for 2013-2017.

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

After examining the financial statements for 2014, the Company's Supervisory Board will decide if the assumed goals have been accomplished and the conditions for exercising Options by eligible participants in the Management Options Scheme for 2014 have been fulfilled.

The allotment of Management Options for 2014, if any, will be announced in the interim report for the first half of 2015.

The details of the Management Options Scheme are specified in the Terms and Conditions of Management Options Scheme of Lubelski Węgiel BOGDANKA S.A., with its registered office in Bogdanka, in 2013-2017, which are enclosed as schedule to Current Report No. 35/2013 of 30 September 2013.

7.4 All agreements concluded by and between LW BOGDANKA and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA and the individual Members of the Management Board which were in force in 2014, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration. These provisions apply to agreements concluded with members of the Management Board appointed for the 8th term of office.

Information on the control system of employee share schemes at the Group

In 2014, no control system of employee share schemes was in place at the LW BOGDANKA Group.

8. ENVIRONMENTAL PROTECTION

8.1 Environmental activities of the LW BOGDANKA Group

Location of the Parent

The entire infrastructure of the mine and the "Puchaczów V" mining area are surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Nature 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.

The Polesie Protected Landscape Area is located in the north-west, while in the south-east there is the Chełm Protected Landscape Area.

The mine does not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-environmental actions, implementation of an Integrated Quality, Environmental and Health and Safety Management System, and obtaining a relevant certificate in accordance with PN EN ISO 14001, 9001 and 18001.

8.1.1. Natural environment protection measures

Air protection

LW BOGDANKA does not have an organised emitter which emits dust and gas into the atmosphere.

An unorganised emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

Water and sewage management

Water and sewage management in terms of mine water involves:

- rock mass drainage at working sites,
- controlled drainage of Jurassic layers (limited amounts due to safety and technical issues),
- use of water for fire and process purposes (air-conditioning, machinery cooling, fighting dust risk),
- pumping water to the surface,
- use of mine water on the surface (Mechanical Coal Processing Plant, Łęczyńska Energetyka Sp. z o.o.),
- retention of mine water in surface tanks in order to reduce suspension,
- discharge of water from tanks through the Rów Żelazny ditch into the Świnka River.

In 2014, the average annual water supply to excavations amounted to 6,039,628 m^3, average total mineralisation 2,231.65 mg/dm^3, Cl + SO_4 ion content – 941 mg/dm^3. The Cl + SO_4 ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with the Central Mining Institute *(Główny Instytut Górnictwa*) classification) – as was the case in previous years.

The quantity of mine water used in 2014 for industrial purposes underground and on the surface amounted to a total of approx. 13,100 m^3/day, out of which approx. 11,583 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the Mechanical Coal Processing Plant in the quantity of 1,501 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 16 m^3/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2014, as was the case in previous years, approx. 30 samples were taken for the purpose of physicochemical analyses of mine water which reaches the excavations.

In 2014, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute (*Główny Instytut Górnictwa*), and revealed the following concentrations: Radium ^{226} in the range of < 0.01 – 0.25 KBq/m^3, Radium ^{228} < 0.05 - 0.19 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

The Company holds an administrative decision – water permit for special water use in accordance with its operations. It is decision no. ŚiR.III.6811/91/07 of 31 December 2007, valid until 31 December 2017, concerning:

a) drainage of the LW BOGDANKA mine in Bogdanka in quantities which shall not exceed:

   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,

   Qhmax = 917 m^3 /h, until 31 December 2010, and

   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,

   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.

b) discharge of unused mine water from the sedimentation tank through the discharge ditch into the "Żelazny" ditch, which is a tributary of the Świnka River.

In 2014, 15,029 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 943.61 mg/dm^3).

Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.

Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:

- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.

Pursuant to legal requirements, twice a year – after the end of each calendar year, LW BOGDANKA calculated and paid a charge for Cl + SO_4 load in unused mine water discharged into the receiving water body – the Świnka River.

In 2014, in compliance with the water permit, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was being conducted.

Surface protection

In 2014, the impact of mining on the surface – as to date – manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:

- approx. 2.50 m in the area of the former ZRH (Agriculture and Stock Farm) in Puchaczów, and in the area of such villages as Kobyłki-Kolonia Szczecin, Nadrybie Dwór, Nadrybie Ukazowe and to the east of the buildings in the Dratów village,

- approx. 2.00 m south of the village of Uciekajka and western part of the village of Kaniwola,

- approx. 2.00 m east of Puchaczów (near the course of the side-track),

- approx. 0.30 m south of the mining area (in the area of 7/VII ploughing panel exploitation).

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining two seams – maximum soil settlement remains at the same level and amounts to approx. 5.00 m in the central part of the settlement basin.

Damage to buildings in 2014 – as to date – were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, renovation works, as well as renovation and protection works were carried out in 16 buildings (in 9 residential and 7 farm ones).

In 2014, the buy-out of the developed properties that were affected most with the negative effects of mining exploitation, which started in 2010, was continued. In order to repair unremovable damage caused by mining in 2014 another four properties located in the Puchaczów Commune were bought together with buildings situated on these properties.

Moreover, the owners of the newly-constructed buildings located in the mining area were reimbursed for the costs of adjusting the structures of these buildings to the mining area, which covered a total of PLN 140,000.

As part of mining damage removal, dressing of damaged asphalt road surface was carried out (in sections of commune and district roads) within a total distance of approx. 1.35 km.

Damage to farmland in 2014 manifested itself – as was the case in previous years – as persisting, periodic or permanent, permeation of land, with the areas of permeation of land gradually becoming larger in the following regions:

- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I, 8/I, 7/I and 6/I in seam 382 are mined,

- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,

- the area of the villages of Uciekajka and Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.

- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV, 3/IV and 4/IV in seam 385 are mined,

- the area of Nadrybie Dwór in the area where faces 1/VI and 2/VI in seam 385 are mined.

The affected land owners in this area received suitable compensation for lost profits from the land affected by permeation in the total amount of PLN 2.4 million.

The costs of removing damage caused by mining in 2014 amounted to a total of approx. PLN 4.3 million. Total expenditure incurred in 2014 in connection with removing damage caused by mining were significantly lower in relation to the expenditure incurred in 2013, which amounted to approx. PLN 7.5 million.

In 2014, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki were continued (drainage of three properties and several hectares of agricultural land).

Reclamation

In 2014, Lubelski Węgiel BOGDANKA S.A. did not conduct land reclamation works in post-industrial areas, however it regularly nurtured the greenery, and took care of the facility used as the mining waste dump, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2015 and in the years to follow, it is forecast that a number of other developed farming plots in the Puchaczów and Ludwin Communes will be bought back, due to irreparable to-date and forecast further damages caused by mining exploitation processes (i.e. permanent continuous undercuts).

As a part of removing mining damage, in 2015 a replacement of several overhead power lines with cable power lines is also planned, as well as replacement of some power lines with isolated networks.

Due to further exploitation, and thus ground settling (about 2.0m - exploitation of panels No. 1/IV/385, 2/IV/385, 3/IV/385 and 4/IV/385), there were local floodlands in the area of the mining water outflow ditch which prevented gravitational outflow of the mining water. After performance of hydro works in previous years, this area is being monitored regularly in order to prevent possible obstructions in outflow of this water to the Świnka river. Above all, this refers to a section of the mining water outflow ditch in km 0 +000 ÷ 2 + 100, where problems with gravitational outflow are expected. As a result, investment works will be necessary to enable the outflow of waters produced in the process of drainage.

Waste management

In the decision dated 26 January 2012, ref. no. RŚ-V.7240.113.2011.EW, the Marshal of the Lubelskie Province approved the mining waste management program of LW BOGDANKA which covered:

1) Creation of mining waste as a result of exploitation of the BOGDANKA hard coal deposit;
2) Recovery of mining waste;
3) Neutralization of waste at a mining waste neutralization facility with the total target surface area equal to 88.56 ha;
4) The program defined, among others:
   - the volume of the mining waste to be produced during the year as equal to 5,700,000 tons;
   - the ways the waste is to be handled, e.g. the frequency of surface water, leachate waters, and underground water testing;
   - the date of the first review of the program was scheduled for 26 January 2017.

In 2014, the total mining waste amounted to 5,624,451 tonnes. Approximately 45% of the waste was recovered and reused.

Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 2,542,695 tonnes.

Mining waste is mostly (approx. 96% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation.

Owners of remediated land hold appropriate decisions of environmental protection authorities for processing waste in the recovering process.

Other waste is stored at the mining waste neutralization facility. In the decision dated 10 April 2012, ref. no. RŚ-V.7244.2.2.2012.EW, amended by the decision dated 15 April 2013, ref. no. RŚ-V.7244.2.2.2012.AK, the Marshall of the Lubelskie Province allowed LW BOGDANKA to operate a mining waste neutralization facility in the Puchaczów Commune. The planned target surface area of the facility will be equal to 88.56 ha and its processing capacity will be equal to 1,850 tons/h. The quantity of mining waste to be stored at the mining waste neutralization facility was specified as equal to 4,000,000 Mg per year.

The table below shows quantities of waste obtained, waste recovered, and waste treated by depositing it in the facility used as the mining waste dump.

Table 23 Waste

Item	2014	2013
Mining waste (Mg)	5,624,451	5,064,500
Deposited waste (Mg)	2,542,695	3,199,928
Reused waste (Mg)	3,081,756	1,864,572

In 2014, the Company did not pay for waste storage, which is in line with the Act on Mining Waste of 10 July 2008 (Article 26.3) (consolidated text, Dz. U. [Journal of Laws] of 2013, item 1136).

Pursuant to the above mentioned permits, the Company conducts tests of the physicochemical composition of Carboniferous waste rocks. To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.

With respect to the management of other waste produced in the Company, Lubelski Węgiel BOGDANKA obtained a decision of the Lublin Province Marshal, ref. no. V.7243.20.2014.LG, dated 6 August 2014, which gives authorisation to produce waste and specifies the manner of handling the waste. The decision, in accordance with binding provisions of law, applies to all of the waste produced in the mine.

LW BOGDANKA conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

Environmental protection sanctions and charges to which the Company is exposed

Mining activity is associated with operating and environmental charges, and a number of costs connected with post-mining waste management, post-industrial land remediation, environmental monitoring, and preparation of certified reports and documentation necessary for proper operation of the plant.

Table 24 Cost related to environmental protection [in PLN '000]

No.	Type of cost	2014	2013
1.	Protection costs (remediation, monitoring, hydrotechnical works, roads, etc.)	1,138.73	609.24
2.	Post-mining waste management and post-industrial waste treatment	32,948.93	26,892.90
3.	Cost of certified reports, opinions, documentation, designs, etc.	69.23	21.50
4.	Environmental charges, including:	403.89	456.26
	- emissions of gas and dust from means of transport, Construction Ceramics Plant and climatic equipment	145.06*	193.94
	- waste [1]	-	-
	- discharge of sewage	258.83	262.32
5.	**Total costs**	**34,560.78**	**27,979.90**

[1] storage of post-mining waste is not subject to charge (the Mining Waste Act)

* lack of emissions from the Construction Ceramics Plant

Lubelski Węgiel BOGDANKA S.A. meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2014.

Charges for operations conducted under the Geological and Mining Law include a mining operations charge, an exploitation charge and a licence fee (in accordance with mining and prospecting licences for a deposit).

The exploitation charge was paid every half a year to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%). The licence fee is also in 40% the income of the National Environmental Protection Fund and in 60% the income of the mining communes.

Table 25 Exploitation charge and mining use charge [in PLN '000]

No.	Type of charge	2014	2013
1	Exploitation	17,269.09	14,945.18
2	Mining operations	184.44	-
3	Licence fee (Ostrów and Orzechów)	168.55	-

8.2 Environmental activities by Łęczyńska Energetyka Sp. z o.o.

a) Air protection

In 2014, Łęczyńska Energetyka operated the following boiler houses:

- in Bogdanka (power 57 MW, coal co-burned with biomass),
- in Zawadów (power 0.25 MW, coal and waste wood),
- boiler house Pasternik in Łęczna (power 4.0 MW, light fuel oil, a reserve boiler house).

With respect to air protection, the Company holds the following decisions:

- decision no. PZ 94/2014 of the Marshal of the Lubelskie Province in Lublin, RŚ-V.7222.60.2014.ILU of 3 December 2014 issued for un unlimited period, amending the decision:
  - decision no. PZ 13/2007 issued by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010 issued by the Marshal of the Lubelskie Province in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Marshal of the Lubelskie Province in Lublin - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.
- decision no. RŚ-V.7225.18.2014.MCHW of 30 December 2014, valid from 1 January 2015 until 31 December 2024.

b) Water and sewage management

Currently the Company holds the aquatic legal survey permits:

- decision no. BAO.6341.42.8.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Nadrybie, valid until 30 November 2032
- decision no. BAO.6341.37.3.2012 of 29 October 2012 of the Poviat Starosty [county authorities] in Łęczna to collect water from the water intake in Stefanów, valid until 30 September 2032
- decision no. BAO.6341.42.9.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Bogdanka field, valid until 30 November 2022
- decision no. BAO.6341.42.10.2012 of 21 December 2012 of the Poviat Starosty [county authorities] in Łęczna to dispose treated sewage from the Nadrybie and Stefanów Fields, valid until 30 November 2022

- and decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007: - an integrated permit for the "heat-generating plant / heat and power station to cogenerate heat and electrical energy in Bogdanka", amended by decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010, issued by the Marshal of the Lubelskie Province in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Marshal of the Lubelskie Province in Lublin, amended by Decision PZ 94/2014 issued by the Marshal of the Lubelskie Province in Lublin no. RŚ-V.7222.60.2014.ILU of 3 December 2014 - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów.

Currently, the Company runs three potable water intakes: in Bogdanka, Nadrybie and Stefanów, and two liquid waste treatment plants: a mechanical / biological one in Bogdanka with the capacity of 700 m3/24 hours, and a mechanical / biological one (Bioblok) in Nadrybie with the capacity of 400 m3/24 hours.

c) Waste management

The Company conducts waste management in accordance with the following decisions and administrative acts:

- Decision issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/20/08-7 valid until 30 June 2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna and Zawadów,
- Decision no. PZ 13/2007 announced by the Lublin Province Governor ref. no. ŚR.V.6618/8-10/2007 - of 22 October 2007 - an integrated permit for the "Heat–Generating Plant / Heat and Power Station to cogenerate heat and electrical energy in Bogdanka", which covers the waste that is generated in connection with the heat-generating plant's activities changed into decision no. PZ 25/2010 ref. no. RŚ.V.IŁ.7624/48/08 of 28 September 2010, issued by the Marshal of the Lubelskie Province in Lublin, amended by decision no. PZ 10/2013 ref. no. RŚ.V.IŁ7624/48/08 of 26 August 2013, issued by the Marshal of the Lubelskie Province in Lublin, amended by Decision no. PZ 94/2014 issued by the Marshal of the Lubelskie Province in Lublin no. RŚ-V.7222.60.2014.ILU of 3 December 2014 - an integrated permit for operating of the heat-generating plant, adjusted to co-burning of coal and wood chips as well as the heat and power station cogenerating heat and electrical energy, adjusted to co-burning of waste, located in Bogdanka, the Commune of Puchaczów,
- Decision no. BAO.6233.7.4.2012 of 13 April 2012 issued by the Poviat Starosty [county authorities] in Łęczna to recover waste other than hazardous waste, valid until 30 June 2020, amending Decision No. BAO 6140-24/10-6 of 17 August 2010 issued by the Poviat Starosty [county authorities] in Łęczna – recovery of waste in burning installation – Zawadów, valid until 30 June 2020.

The waste generated is as follows:

a) slags, furnace ashes, and dusts from the boiler house,

b) ash and slag mixtures from liquid waste discharge of combustion waste,

c) sediments from the liquid waste treatment plant in Bogdanka and Nadrybie,

d) screenings from the waste treatment plant,

e) used oil,

f) other solvents and solvent mixtures,

g) waste printer toner,

h) fluorescent and mercury lamps, monitors,

i) chemical reagent packaging,

j) non-segregable municipal waste, plastic packaging

k) used cleaning materials and sorbent,

l) steel and cast iron scrap,

m) non-ferrous metals scrap,

n) insulation materials other than mentioned above (mineral wool, glass wool, tar board),

o) concrete waste and concrete rubble from demolished structures and repairs,

p) brick rubble,

q) glass,

r) packaging containing residues of or contaminated by dangerous substances,

s) used electronic devices (computers etc.).

The Company hands over the waste that it generates to business entities that hold the relevant waste management decisions issued by appropriate local government authorities pursuant to the Waste Act of 27 April 2001 and a new act of 14 December 2012.

d) Financial charges for the economic use of the environment

Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years are presented in the table below.

Table 26 Fees paid by Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment

Item [PLN]	2012	2013	2014
Emissions of boiler house pollutions:			
in Bogdanka	128,893.33	108,420.00	93,080.00
in Łęczna	-	-	-
in Zawadów	1,344.30	1,775.00	1,791.99
For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów	61,735.75	85,788.45	75,624.00
TOTAL	191,973.38	195,983.45	170,495.99

In the financial year 2014 the charge for business use of the environment was by approx. 13% lower as compared to the previous year. The final figure of the charge in question will have been known by the end of March 2015.

Concurrently, due to the decrease in production, the emissions fee for the boiler house in Bogdanka went down by approx. 14.1%.

The reduction of fees for the use of the environment in terms of water intake and wastewater discharge (by nearly 12%) was a consequence of a lower use of water for technological purpose and the volume of wastewater discharged (in particular from the Nadrybie and Stefanów Fields).

In the past financial year, as in previous years, no fines for exceeding set emission limits were imposed on the Company.

The estimated volume of CO_2 emissions amounts to 43,403 Mg, and the limit granted for 2014 stands at 24 680 Mg. A significant portion of the deficit for emission rights was covered with rights granted for 2013. The value of such missing rights amounts to only PLN 12,000.

8.3 Environmental protection activities of EkoTrans BOGDANKA

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

8.4 Environmental protection activities of RG Bogdanka

RG Bogdanka was not engaged in any environmental protection activities.

8.5 Environmental protection activities of MR Bogdanka

MR Bogdanka was not engaged in any environmental protection activities.

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

As of the date of submitting this Report, the LW BOGDANKA Group has no information on any proceedings pending before: a court, the relevant authority for arbitration proceedings or a public administration authority in which LW BOGDANKA or its subsidiary is a party, concerning:

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

For more information about the proceedings to which LW BOGDANKA was a party see the Directors' Report on Operations of LW BOGDANKA for the period from 1 January 2014 to 31 December 2014.

10. OTHER SIGNIFICANT EVENTS AFFECTING THE LW BOGDANKA GROUP'S OPERATIONS

10.1 Marketing activities conducted by the Company in 2014

The following promotional activities are carried out in Lubelski Węgiel BOGDANKA:

1. advertising sponsorship, sports is understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the adopted strategy, promotional reach and image of a socially-responsible organisation (CSR).
2. advertising sponsorship, other is understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand. This promotion channel applies in particular to CSR activities.
3. promotion – promotional mix for the BOGDANKA corporate brand is understood as public relations, Corporate Social Responsibility and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image and products. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's marketing, PR and CSR unit, as well as outsourced to advertising agencies in case of official media campaigns.

The rationale behind the marketing activities undertaken:

1. advertising sponsorship, sports and other
   a) achieving marketing objectives
      - continued creation of company image as a leader of the mining industry on the Polish and European market. An increase in the value of the Company's brand through a range of advertising services

provided by sponsored entities. Obtaining high media coverage whose value in terms of advertising is higher than the funds engaged in sponsorship;

- manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;
- promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;
- ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;

b) achieving social aims:

- minimising high risk of conflicts in the Company between the employer and trade unions, maintaining social order in the Company. Mitigating possible social tensions and creating an atmosphere of friendly attitude towards the Company's projects;
- maintaining good relations with employees, which translates into continued high performance of work provided by them;
- satisfying expectations of the local community in the region, which is one of the poorer regions of Poland;
- involvement of local youth into sport and social events of educational dimension, properly forming personalities of prospective future employees of the Company — in particular at the Górnik Łęczna Sports Academy;
- activating the community of the Lublin region into sport, social and cultural events, which would not be initiated without the support of the Company;
- creating the image of a socially responsible company, caring about employees and their families;

The common denominator for the above scopes, especially with respect to shaping the brand's corporate image, is the existing CSR Strategy.

Promotional activities for the BOGDANKA corporate brand focused mainly on the brand image — these activities were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2014 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

Advertising at cultural and scientific events greatly contributed to the creation of positive brand image in the community, as well as among researchers, decision- and opinion makers and emphasised the importance of Lubelski Węgiel BOGDANKA for the Lublin region as one of few large and expansive companies in the area.

The promotional activities involved mainly displaying the logos of brands belonging to LW BOGDANKA at events considered important for the region and the corporate brand from the point of view of advertising and target groups. Information about the range of products offered by the Company was actively distributed at cultural, educational and other events.

The advertising activities listed above had a significant impact on the promotion of the BOGDANKA brand. Radio and television broadcasts of sports tournaments and sponsored social or sports events, articles about sports teams sponsored by the Company and their photographs published in the press demonstrated the Company's commitment to the promotion of sports and an active lifestyle. All these activities were aimed at promoting the Company's Corporate Identity – domestic and international success, earning the trust of the Company's stakeholders.

Expenditure for internal marketing intended at increasing the level of employees' identification with the Company's corporate brand and creating their need to be the employer's ambassador, constituted a material part of the promotional activity in 2014.

In conclusion, the sponsorship of Górnik Łęczna S.A. (together with the Sports Academy of Górnik Łęczna), which advanced to Ekstraklasa (Polish premiere football league), as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Brand promotion at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers.

Execution of promotional budgets

The implementation of the advertising budgets both of the Bogdanka corporate brand and the associated EkoKLINKIER brand stood at 60.08% and 12.33%, respectively. The sports sponsorship budget was executed in 100%, whereas the execution of the budget allocated to other sponsorship stood at 39.97%. The low level of executing the promotional budget of the EkoKLINKIER brand in 2014 was a consequence of the decision related to the reduction of production and selling out the existing products.

Table 27 Advertising budget execution in 2014 [in PLN '000]

Item	Advertising budget item	Execution in 2014 [PLN net]
1	Promotion of the BOGDANKA corporate brand	**901**
2	Promotion of the EkoKLINKIER associated brand	**90**
3	Advertising sponsorship, sports, including:	**6,200**
	- sponsorship cooperation with Górnik Łęczna S.A.	*6,200*
4	Advertising sponsorship, other	**240**
TOTAL		**7,431**

10.2 Donations

The Parent, Lubelski Węgiel BOGDANKA, is a valued employer in the region. The Company's biggest asset are its people, who identify with the business and its mission. The Company's personnel, together with their families, numbers over 10,000 individuals who are directly and indirectly associated with and financially dependent on the mine.

In its operations, apart from achieving positive economic results, the Company has to show interest in fostering values that integrate local communities. This is reflected in the support given to local social initiatives aimed at developing culture, research, education and health care, as well as building communal infrastructure and meeting other needs of the local community. Moreover, the Company sponsors sports and cultural activities. This philosophy benefits the Company, helps to promote a favourable image of a business that cares about non-economic activities and, first and foremost, encourages local initiative.

In 2014, the Parent's Management Board allocated to donations in the form of cash and non-cash donations a total amount of PLN 716,066.75.

In 2014, the Management Board allocated funds for the following purposes [in PLN '000]:

- health care and promotion	-PLN 435
- culture, art, protection of culture and tradition	-PLN 79
- promotion of sports	-PLN 33
- public order and safety	-PLN 89
- education and science	-PLN 80

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 10,000.

In 2014 two contracts of donation was concluded which required approval of the Company's Supervisory Board.

All beneficiaries are required by the provisions of the contract to issue a written statement confirming the acceptance of a donation, followed by a report on the use of the donation for the purpose specified in the contract. Such reports are submitted by the beneficiaries in the form of statements, descriptions, photocopies of invoices and other documents proving due execution of the contract of donation.

10.3 CSR strategy for 2014-2017

Since 2012, the Company has applied the Corporate Social Responsibility Strategy (CSR).

In the second half of 2013 the then existing CSR strategy, adopted for the period 2012-2015, was revisited. The purpose of the revision was both a standard assessment of the degree of implementation of the set goals, and – first and foremost – the assessment whether these goals, defined in the 2x2 Strategy (2013-2020) adopted in 2013, are update and adequate to the challenges the Company is facing. The development strategy clearly points at a durable and sustainable growth in order to maintain the competitive advantage and the optimum use of internal growth potential. It assumes that the Company will continue to be the leader of efficiency in the mining industry and in innovative technical solutions (Smart Mine). The Management's ambition is to double the production capacity and, at the same time, to double the resources and to extend the life of the mine until 2050. The planned actions are mutually dependent with the works in the area of social responsibility. Effectiveness includes effective management of occupational health and safety. It also requires higher environmental efficiency. Extension of the life of the mine is also a manifestation of the efforts to be a good citizen of the local community. The Social Responsibility Strategy is an integral element of the business development strategy and not a document that describes actions unrelated to business. Consequently, due to the fact that a new development strategy has been adopted, it is necessary to revise the social responsibility strategy.

In consequence of the process which lasted several months a new CSR Strategy was adopted setting objectives and directions for activities to be undertaken in 2014-2017. The priorities of social responsibility set therein, are now, in the management's opinion, more clear and comprehensible for the addressees and more precisely reflect key areas of social and environmental activity. An easy perception makes the strategy a credible means in the communication within and outside the Company. Importantly, the new approach to definition of objectives makes it easier to measure the objectives and to evaluate the degree of their achievement.

The updated approach to management of social responsibility can be most briefly defines as: "Safety of the employees and protection of the local community and the natural environment. Sustainable and predictable development and increase of the value of the company." The strategy itself is based on continuation of the four priorities for which the key measures and measurable objectives have been defined. Each of the objectives has been assigned basic directions, for which in turn measurable objectives have been defined. A brief description of the priorities of the newly adopted CSR Strategy for 2014-2017 is the following:

1. **Objective 1: Striving to enhance the safety level of the employees;**
   1.1. Elimination of fatal accidents;
   1.2. Reduction of the accident frequency rate;
   1.3. Reduction of the accident rate among contractors' employees;
   1.4. Elimination of a number of occupational diseases;

1.5. Elimination of non-compliance with the applicable occupational health and safety procedures.

2. **Objective 2: Guaranteeing the safety of the local natural environment;**
    2.1. Protection of local biodiversity and restoration of areas that have been transformed;
    2.2. Increased environmental efficiency and operational efficiency of extraction.
3. **Objective 3: Ensuring the safety and supporting the development of the local community;**
    3.1. Counteracting the consequences of social mining damages;
    3.2. Actions for the benefit of the local community;
    3.3. Support of education and the development of the mining industry.
4. **Objective 4: Transparent and responsible management practices;**
    4.1. Expansion of responsibility to the chain of supply;
    4.2. Inclusion of management ethics in the organizational culture of the Company;
    4.3. Prevention of corruption and bribery;
    4.4. Creation of a culture of openness and dialog at work;
    4.5. High quality management of the relations with the surroundings and of the corporate social responsibility.

In 2014 (June), the Company published its first Responsible Business Report - an opening report for 2012-2013. This was the first social report published by the Company that was elaborated based on the guidelines of the Global Reporting Initiative (GRI). According to the GRI recommendations for organizations that started their reporting process, it was prepared based on the GRI G4 ("in accordance") in the core option. The report included indicators that are specific for the mining industry and are described in the relevant sectoral supplement to the GRI guidelines. Of note is the fact that, being aware of the importance of non-financial issues, the Company has for years published information on the impact of its operations on the social and natural environment in its annual statements and the Directors' reports from operations. Nevertheless, this reporting was not based on the GRI guidelines.

The aforementioned CRS Report won at the end of 2014 two awards: one handed by FOB, PwC, and SGS for the best debut report and one handed by the Ministry of Economy for presentation of the understanding of the idea of CSR in individual actions in the mining sections, a clear presentation of the company's role in the chain of supply, and valuable descriptions of management of innovation and environmental aspects.

Thanks to its actions taken in the area of sustainable development and a skilful combination of CSR issues with promotion of the brand, the Company was listed again in the Respect Index at the Warsaw Stock Exchange in 2015.

The Company financed all of its activities in the area of corporate social responsibility in 2014 from the budget for promotion of the Bogdanka corporate brand.

11. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

On 27 June 2012, the Supervisory Board of the Parent adopted a resolution on appointing Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) with registered office in Warsaw, al. Jana Pawła II 19, as an entity authorised to:

- review the Group's financial statements and consolidated financial statements for the first halves of 2012, 2013 and 2014,
- audit the Company's financial statements and the consolidated financial statements of the Group for 2012, 2013 and 2014.

The agreement with the auditor was concluded on 17 July 2012.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) was entered on 7 February 1995 under number 73 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Parent's Supervisory Board selected the auditor in accordance with Article 32.1.4 of the Parent's Articles of Association, in compliance with the applicable legislation and professional standards.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. (formerly: Deloitte Audyt Sp. z o.o.) along with Deloitte Advisory Sp. z o.o., Deloitte Doradztwo Podatkowe Sp. z o.o., Deloitte Business Consulting S.A., Deloitte Polska Sp. z o.o., Deloitte PP Sp. z o.o., Deloitte Strategy and Research Sp. z o.o., Deloitte Services Sp. z o.o. and

Deloitte Legal, Pasternak, Korba i Wspólnicy Kancelaria Prawnicza Sp. k. jointly referred to as - Deloitte PL – are associated entities of Deloitte Central Europe Holdings Limited.

Table 28 Fee for the auditor authorised to audit the financial statements [PLN '000]

Deloitte PL	2014	2013
– auditing annual financial statements	60*(1)	60*(1)
– other certifying services, including a review of financial statements	40*	40*
– tax advisory services	-	1.4**
– other services	44.7	32* 5***
Total	**144.7**	**138.4**

* Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k.
** Deloitte Doradztwo Podatkowe Sp. z o.o.
***Deloitte Advisory Sp. z o.o.
(1) of which PLN 40,000 is payable after the Company is provided with final versions of the Opinion and the Report of the audit of separate financial statements and the Opinion and the Report of the audit of consolidated financial statements

12. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

12.1 Corporate governance rules applicable at LW BOGDANKA

In 2014, LW BOGDANKA complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010. Currently, the Company applies the rules of corporate governance based on the "Code of Best Practice for WSE Listed Companies" passed with the resolution of the Board of the Stock Exchange No. 19/1307/2012 of 21 November 2012, effective from 1 January 2013. "Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 1 January 2013 amendments to the Code of Best Practice for WSE Listed Companies, introduced by virtue of resolution no. 19/1307/2012 of the WSE Board of 21 November 2012, became effective. In relation to these amendments, the Company announced the deviation from the rule contained in part IV section 10 of the Code of Best Practice for WSE Listed Companies, on providing the shareholders with the possibility to participate in the general shareholders meeting with the use of electron communication means, which consists in real-time transmission of the general meeting sessions as well as both-way real-time communication, enabling the shareholders, who are not physically present at the general meeting venue, to speak during the meeting. The Company announced the above in Corporate Governance Report 1/2013 of 29 May 2013.

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

The LW BOGDANKA Group draws up consolidated financial statements in accordance with universally binding legal provisions and internal regulations.

As part of the internal audit and risk management system, the process of drawing up the financial statements is governed by a number of the Parent's and the Subsidiaries' internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the

Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

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

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

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;
- Reliability and completeness –all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms;
- The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation;
- Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

The accounting ledgers of Lubelski Węgiel BOGDANKA are maintained using the FINANSE IT system, forming part of the INTEGRA Integrated Management System. The systems used are password protected against access by unauthorised persons and have functional access restrictions. Source documents, on which entries in the accounting ledgers are based, are checked as part of the so-called functional supervision performed by units substantively responsible for the transactions executed. Prior to recording a document, the accounting and finance personnel conduct the final check. The process of drawing up the Company's financial statements is supervised by the Vice-President for Economic and Financial Affairs, in charge of the finance and accounting personnel responsible for verification and recording of business events in the Company's accounting ledgers and for generating the data required for the financial statements. Moreover, the reliability of the financial statements can be attributed to experienced and highly-qualified finance and accounting personnel, supervised by heads of the particular organisational units.

The Parent and its Subsidiary, Łęczyńska Energetyka, maintain accounting ledgers and draw up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as well as with the related interpretations announced in the form of regulations of the European Commission. Other Subsidiaries, when preparing financial information for the consolidation purposes apply the same accounting policies as the Parent (common accounting policy within the Group).

The Company keeps up to date with the changes to legal provisions and external regulations governing the reporting requirements.

The body supervising the financial reporting process at Lubelski Węgiel BOGDANKA and co-operating with an independent auditor is the Audit Committee appointed by the Supervisory Board. Furthermore, pursuant to Article 4a of the Accounting Act of 29 September 1994, the Supervisory Board's responsibilities include ensuring that the Company's financial statements and the report on the Company's operations comply with all legal requirements.

The activity of the Audit and Internal Control Department within the Company's organisational structure, operating pursuant to the Rules of Audit and Internal Control, is also of significance. The internal audit system at Lubelski Węgiel BOGDANKA is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor, who issues a relevant opinion. The Parent's chartered auditor is appointed by the Supervisory Board from among reputable audit firms in accordance with recommendations made by the Audit Committee, which, among other things, pays due attention to ensuring the auditor's impartiality and independence.

The adopted rules of procedure with regard to drawing up the financial statements are to guarantee compliance with legal requirements and the factual circumstances, as well as timely identification and elimination of potential risks, so as to prevent them from affecting the reliability and correctness of the financial data presented.

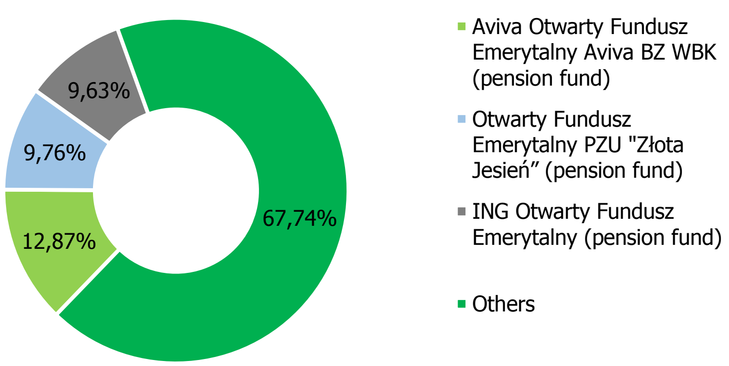
12.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A.

Table 29 The shareholding structure of LW BOGDANKA as at the date of submitting the previous interim Report, i.e. 6 November 2014 and 12 March 2015

Shareholder	6 November 2014		12 March 2015	
	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*	Number of shares/ Number of votes at the GSM	Share in the share capital (%)*
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	5,060,091	14.88	4,379,207	12.87
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
Other	22,357,169	65.73	23,038,053	67.74
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the Notification received on 24 December 2014, described in Current Report No. 22/2014.
**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.

Chart 9. Shareholding structure of LW BOGDANKA as at 12 March 2015



12.4 Owners of all the securities which entitle to special control rights

The Parent has not issued any securities which would entitle shareholders to special control rights.

12.5 Restrictions on exercising the voting right

The Articles of Association of the Parent do not provide for any restrictions on exercising the voting right at the General Shareholders Meeting of the Company.

12.6 Restrictions on transferring ownership of the Company's securities

The Articles of Association of the Parent do not provide for any restrictions on transferring ownership of the Company's securities.

12.7 Description of the rules governing the amendments made to the Company's Articles of Association

Amendments to the Articles of Association of LW BOGDANKA shall be adopted by the General Shareholders Meeting and entered into the register of entrepreneurs in compliance with the Company's Articles of Association as well as provisions of the Commercial Companies Code.

If these Articles of Association are planned to be amended to a significant extent, the Management Board shall draft a new uniform text of the Articles of Association, along with a list of provisions to be amended or added, and shall attach the draft to the announcement convening the General Shareholders Meeting which is to amend the Articles of Association.

After the General Shareholders Meeting amends these Articles of Association, the Management Board shall draft a uniform text of the amended Articles of Association and shall submit it for approval by the Supervisory Board.

Moreover, in the event of amending the Articles of Association, the Regulation of the Minister of Finance of 19 February 2009 (Dz. U. [Journal of Laws] 09.33.259, as amended) on current and periodic information published by issuers of securities and the conditions for deeming equally important the information required by provisions of law of a country which is not a Member State, which impose the obligation to publicly announce, in the form of a current report, information concerning a planned or conducted amendment of articles of association.

12.8 Governing bodies

12.8.1 Management Boards

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

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

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

The mandate of a Management Board member shall expire no later than on the date of the General Shareholders Meeting which approves the report on the Company's operations and financial statements for the last full financial year in which such member served on the Management Board.

Dismissal of Management Board members

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

Management Board for the 8th term of office

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

1.	Zbigniew Stopa	- President of the Management Board
2.	Yves, Marie, Gerard, Roger de Bazelaire de Boucheporn	- Vice-President of the Management Board, Economic and Financial Affairs
3.	Waldemar Bernaciak	- Vice-President of the Management Board, Trade and Logistics
4.	Krzysztof Szlaga	- Vice-President of the Management Board, Procurement and Investments, since 27 March 2014 – by a Resolution of the Supervisory Board

Description of operations of the Parent's Management Board and its authorisations

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

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

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

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

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

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

1. adopting the Rules of Procedure for the Management Board,

2. adopting the Company's Organisational Rules,
3. creation and liquidation of the Company branches,
4. appointment of a proxy,
5. contracting loans,
6. adopting annual business plans (specifying the tasks to be performed and the related budgets, covering technical and business details) and long-term strategic plans,
7. assuming contingent liabilities (including the issuance of guarantees, sureties and notes),
8. acquiring non-current assets with a value exceeding the amount of PLN 100,000.00 (one hundred thousand zloty),
9. disposing of non-current assets with a value exceeding the amount of PLN 50,000.00 (fifty thousand zloty),
10. any matters which are submitted by the Management Board for Supervisory Board's and the General Shareholders Meeting's consideration.

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

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

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

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

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

Tasks and obligations of the members of the Management Board in 2014

In accordance with the Company's Organisational Rules:

The President of the Management Board (D):

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards.
2. Represents the Company in relations with third parties.
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
   a) company organisation,
   b) supporting the operations of the Company's governing bodies,
   c) privatisation, Company restructuring,
   d) ownership supervision and capital investments,
   e) internal structural and ownership transformations,

f) providing information and reports to investors, shareholders and stock exchange institutions,

g) implementing the LW BOGDANKA's strategy and the Company's long-term plans, as well as implementing strategic management and project management at the Company,

h) project management,

i) co-operation with the media and the information policy,

j) current records archive and general secretariat,

k) internal audit in the Company,

l) matters of defence,

m) HR policy, employee and social issues,

n) occupational health and safety, training courses,

o) future plans with regard to the development and modernisation of the production process,

p) protection of personal data and confidential information,

q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,

r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,

s) management of risks at the Company,

t) ethics,

u) monitoring the quality of construction ceramics.

5. Indirectly supervises the performance of assignments by organisational units, whose scope of activity covers:

a) extracting and producing commercial coal,

b) maintaining and developing production capacity,

c) environmental protection, stone management and mining damage,

d) deposit management planning,

e) keeping surveyor and geological records, as well as production records,

f) technical and financial advancement,

g) organising and planning the production and development of the mine,

h) research and implementations.

Moreover, the responsibilities of the President of the Management Board include any and all issues stipulated in the Rules of Procedure of the Management Board and the resolutions of the Company's Management Board.

The President of the Management Board shall perform his duties in compliance with the laws in force, the provisions of the Company's Articles of Association, the Company's Bylaws and the resolutions of the Management Board, with due diligence of a prudent merchant.

The Vice-President for Economic and Financial Affairs (DE)

The Vice-President for Economic and Financial Affairs holds responsibility for the Company's operations in the following areas:

1. Managing the Company's finances.
2. Pay and insurance policies.
3. Economic and financial analyses.

4. Reporting and statistics.
5. Budgeting and controlling.
6. Supervising Company value management.
7. Supervising financial and accounting services.
8. Supervising the accountancy and settlements with business partners.
9. Economic effectiveness of investment projects.
10. Developing the rules for managing short-term securities.
11. Computerisation of the Company.
12. Inventory.

The Vice-President for Trade and Logistics (DH)

The Vice-President for Trade and Logistics organises and supervises the Company's operations in the following areas:

1. Sales and wholesale shipping of coal.
2. Sales of construction ceramics.
3. Coal warehousing.
4. Market analyses.
5. Rail transportation.

Vice-President of the Management Board for Procurement and Investments (DI)

Vice-President of the Management Board for Procurement and Investments organises and supervises the Company's operations in particular in the following areas:

1. Investment activity, capex planning, machinery purchases and overhauls as well as maintenance of buildings and structures.
2. Budgeting and estimating costs of services and purchases.
3. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues.
4. Waste utilisation and recycling.
5. Warehouse materials management and logistics (on ground).

Information about Management Board meetings and the resolutions adopted

In the reporting year 2014 the Management Board appointed for the 8^{th} term held 98 minuted meetings and adopted a total of 1,394 resolutions.

The decisions taken by the Management Board in the form of resolutions resulted from the application of the provisions of the Commercial Companies' Code, the Articles of Association, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Management Board, the principles set forth in the resolutions of the General Shareholders Meeting, the need to take decisions whose scope went beyond the Company's ordinary management and at the request of individual Management Board members.

Information on powers of proxy granted and revoked

In 2014, changes in the composition of the Company's proxies occurred. On 10 January 2014 the Company's Management Board granted a power of proxy to Ms Urszula Piątek.

12.8.1.1 Compositions of Management Boards of the Subsidiaries

Łęczyńska Energetyka Sp. z o.o.

As at 31 December 2014 and as the date of submitting the Report, the Management Board of the company was composed of:

1. Dariusz Stawowy - President of the Management Board – General Director (under a Resolution of the Annual Shareholders Meeting No. 18/2014 of 17 April 2014);
2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (under a Resolution of the Supervisory Board of Łęczyńska Energetyka No. 16/2014 of 31 March 2014).

EkoTrans Sp. z o.o.

- Marek Saba – President of the Management Board

RG Bogdanka Sp. z o.o.

- Sławomir Kozak – President of the Management Board

MR Bogdanka Sp. z o.o.

- Janusz Kasprzak – President of the Management Board

Supervisory Boards of the companies

Composition

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

The Supervisory Board operating in 2014 was appointed for the 8th term of office by the Annual General Shareholders Meeting on 27 April 2012. On 22 November 2013 the Extraordinary General Shareholders Meeting appointed Mr Michał Stopyra as a member of the Supervisory Board for the 8th term of office. As at 31 December 2014 and as at the day this Report was submitted the composition of the Supervisory Board was as follows:

On 27 April 2012, the Annual General Shareholders Meeting appointed members of the Supervisory Board of the 8th term of office in the following composition:

1. Witold Daniłowicz · Chairman of the Supervisory Board,
2. Stefan Kawalec · Vice-Chairman of the Supervisory Board,
3. Raimondo Eggink · Secretary of the Supervisory Board,
4. Robert Bednarski · Member of the Supervisory Board,
5. Dariusz Formela · Member of the Supervisory Board,
6. Eryk Karski · Member of the Supervisory Board,
7. Tomasz Mosiek · Member of the Supervisory Board,
8. Michał Stopyra · Member of the Supervisory Board.

As at 31 December 2014 and as at the date of submitting this Report, the composition of the **Supervisory Board of Łęczyńska Energetyka sp. z o.o.** was as follows:

1. Zbigniew Stopa · Chairman,
2. Teodor Kosiarski · Vice-Chairman,
3. Krzysztof Zborowski · Secretary,

4. Andrzej Jabłoniec · Member,
5. Krzysztof Ancuta · Member.

As at 31 December 2014 and as at the date of submitting this Report, the composition of the **Supervisory Board of EkoTrans BOGDANKA sp. z o.o.** was as follows:

1. Waldemar Piotruk · Chairman,
2. Zbigniew Stopa · Vice-Chairman,
3. Laurencja Helena Łyszczarz · Secretary,
4. Krzysztof Szlaga · Member.

As at 31 December 2014 and as at the date of submitting this Report, the composition of the **Supervisory Board of RG Bogdanka sp. z o.o.** was as follows:

1. Sławomir Karlikowski · Chairman,
2. Anna Telecka · Vice-Chairman,
3. Agata Warda · Secretary,
4. Krzysztof Szlaga · Member.

As at 31 December 2014 and as at the date of submitting this Report, the composition of the **Supervisory Board of MR Bogdanka sp. z o.o.** was as follows:

1. Ryszard Metelski · Chairman,
2. Grzegorz Gawroński · Vice-Chairman,
3. Edyta Jasińska · Secretary.

Description of activities of the Parent's Supervisory Board

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

1. The responsibilities of the Supervisory Board include:

1) assessment of the Directors' Report on the Company's operations and financial statements for the preceding financial year regarding their conformity with books, documents and facts, as well as the assessment of the consolidated financial statements of the capital group, if such a report is prepared.
2) assessing motions of the Management Board regarding the distribution of profits or covering of losses;
3) submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
4) selecting a chartered auditor to audit annual financial statements and consolidated financial statements of the Company's capital group;
5) determining the scope and deadlines for the Management Board's submission of annual material and financial plans (technical and economic) and long-term strategic plans;
6) approving of the Company's long-term strategic plans as well as changes thereto;

7) approving of the Company's annual business plans (specifying the tasks to be performed and the related budgets) as well as changes thereto,
8) adopting rules laying down the detailed procedure followed by the Supervisory Board;
9) adopting for the Company's internal purposes the uniform text of the Company's Articles of Association prepared by the Company's Management Board,
10) approving the Management Board rules;
11) approval of the Rules of Procedure of Internal Audit and Control as well as changes thereto.

2. The powers of the Supervisory Board shall include granting consent to the Management Board for the following:

1) acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00;
2) acquisition, sale or production of non-current assets, non-current assets in construction or intangible assets which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, if the value of one or more related transactions exceeds the PLN equivalent of EUR 5,000,000;
3) establishment of a security regarding any liability of the Company or a third party, if the value of one or more related transactions exceeds the PLN equivalent of EUR 1,000,000;
4) entering into an agreement by the Company or performing any other legal act other than those indicated in 2) or 3), which is not described in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, where the total value of the Company's benefits or receivables (with respect to one or more related legal actions and regardless of a period which they cover), exceeds the PLN equivalent of EUR 10,000,000, except for agreements entered into as part of the Company's core business;
5) conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 10,000, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association;
6) entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;
7) entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;
8) contracting liabilities, i.e. a loan, credit, security or similar, which are not provided for in an annual business plan approved by the Supervisory Board, as provided for in the Articles of Association, whose value (except for interest on repayable funds) exceeds the PLN equivalent of EUR 25,000,000, except for the issue of securities referred to in Article 52.3.5 (of the Company's Articles of Association);
9) granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness;
10) granting consent to the creation of foreign branches of the Company;
11) granting consent to paying to the Shareholders an advance for the expected dividend at the end of a financial year.

3. Additionally, the Supervisory Board's powers shall include in particular:

1) appointing and dismissing members of the Management Board,

2) establishing the remuneration rules and remuneration amounts to be received by the Management Board members,
3) suspending the members of the Management Board from office for important reasons,
4) delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
5) representing the Company in agreements and disputes between the Company and the Management Board members,
6) granting permission to Management Board members for accepting positions on the governing bodies of other entities,
7) approval of dismissal of a person in charge of the Company's organisational unit responsible for internal audit and control.

The operating procedure of the Supervisory Board, including the procedure for convening Supervisory Board meetings, are defined in detail in the Rules of Procedure of the Supervisory Board adopted by the Supervisory Board.

The activity of the Board shall also be based on the principles of good practice of companies listed at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

The Board may appoint standing and temporary committees from among its members. The Audit Committee, the Appointment and Remuneration Committee, and the Strategy Committee are standing committees at the Supervisory Board.

Audit Committee of LW BOGDANKA

The Audit Committee, as a collective advisory and opinion-giving body, supported the activities of the Supervisory Board in 2014.

In accordance with the Rules of Procedure of the Supervisory Board, the Audit Committee is composed of no less than three members, at least one of whom shall meet the requirement of being an independent member within the meaning of the Polish Act on Chartered Auditors. The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements. In particular, the duties of the Audit Committee shall include:

- monitoring the process of financial reporting and performing audits,
- monitoring the effectiveness of the following systems: internal control, internal audit and risk management,
- cooperation with the chartered auditor auditing the financial statements of the Company, as well as monitoring the autonomy of the chartered auditor and an entity authorised to audit the financial statements, and recommending to the Supervisory Board the chartered auditor to be selected,
- discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and
- providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

In 2014 the **Audit Committee** operated in the following composition:

1. Eryk Karski — Chairman
2. Robert Bednarski
3. Raimondo Eggink
4. Tomasz Mosiek

Appointment and Remuneration Committee

In 2014 the Appointment and Remuneration Committee operated in the following composition:

1. Dariusz Formela — Chairman
2. Stefan Kawalec
3. Tomasz Mosiek

The Appointment and Remuneration Committee prepared draft non-competition agreements for the members of the Management Board, assessed the performance of quantitative and qualitative objectives of individual Management Board members in the MBO process.

Strategy Committee

On 3 March 2014, a Strategy Committee was appointed in the following composition:

1. Stefan Kawalec — Chairman
2. Raimondo Eggink
3. Michał Stopyra

12.8.2 General Shareholders Meeting of LW BOGDANKA

Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting

The General Shareholders Meeting of LW BOGDANKA holds annual or extraordinary sessions based on provisions of the Commercial Companies Code, the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA.

The General Shareholders Meeting is convened by the Management Board, subject to the provisions of the Commercial Companies Code and Article 44 of the Company's Articles of Association.

The General Shareholders Meeting is convened by way of publishing a relevant announcement at the Company's website, in a manner specified for announcing information by public companies, with a proviso that such an announcement should be published at least twenty-six days before the proposed date of the General Shareholders Meeting.

The General Shareholders Meeting may adopt resolutions only with respect to the issues included in the agenda, subject to the provisions of Article 404 of the Commercial Companies Code. A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Shareholders Meeting. In order to exercise their right, the shareholders entitled to request that certain matters be placed on the agenda of the General Shareholders Meeting, should submit a request to the Company's Management Board, in writing or in an electronic form, along with a justification and a draft resolution regarding the proposed item of the agenda, not later however than twenty-one days before the scheduled date of the General Shareholders Meeting.

The Management Board announces the changes in the agenda of the next General Shareholders Meeting introduced at the request of the shareholders; the announcement shall be made promptly, however not later than eighteen days before the scheduled date of the General Shareholders Meeting. The announcement shall be made in a manner appropriate for the convening the General Shareholders Meeting.

Only persons who are shareholders of the Company sixteen days before the date of the General Shareholders Meeting (i.e. the date of registering participation in the Meeting) are entitled to participate in the General Shareholders Meeting with the right to vote.

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's

Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

A shareholder can transfer its shares in the period between the date of registering participation in the General Shareholders Meeting and the date when the meeting ends.

In accordance with the Rules of Procedure of the General Shareholders Meeting of LW BOGDANKA, members of the Supervisory Board and the Management Board and the Company's chartered auditor should, within the limits of their powers and to the extent necessary to resolve matters being discussed by the General Shareholders Meeting, provide participants in the meeting with clarifications and information relating to the Company.

Shareholders can participate in the General Shareholders Meeting and exercise their voting rights either personally or through a proxy. Powers of attorney to participate in a General Shareholders Meeting and vote should be granted in writing or in electronic form.

Unless otherwise stipulated by the provisions of the Commercial Companies Code or the Company's Articles of Association, the General Shareholders Meeting may adopt resolutions irrespective of the number of shares represented at the Meeting. At the General Shareholders Meeting, one share confers the right to one vote.

The Annual General Shareholders Meeting shall be convened in order to:

- recognise and approve the reports,
- adopt a resolution on the distribution of profit or coverage of loss,
- grant discharge to the members of the Company's governing bodies in respect of the performance of their duties,
- set the dividend record date and dividend payment date.

The following issues shall require a resolution of the General Shareholders Meeting:

- appointment and removal from office of the Supervisory Board members,
- determination of the rules governing remuneration of the Management Board and Supervisory Board members, including remuneration amounts,
- disposal or lease of the Company's enterprise or an organised part thereof, or establishment of limited property rights thereon,
- execution by the Company of a loan, credit or other similar agreement with, or for the benefit of, a Management Board member, a Supervisory Board member, a proxy or a liquidator,
- increase in or reduction of the Company's share capital,
- issue of bonds of any type,
- acquisition of its own shares by the Company, or granting authority to acquire such shares, under circumstances provided for in the Commercial Companies Code,
- mandatory redemption of shares in accordance with the Commercial Companies Code,
- creation, use and release of capital reserves,
- use of statutory reserve funds,
- making decisions with respect to claims for repair of damage caused upon the Company's formation or in the course of management or supervision of the Company,
- merger, transformation or demerger of the Company,

- amendments to the Company's Articles of Association, including changes to the Company's business profile,
- dissolving and liquidating the Company,
- establishment of another company by the Company,
- subscription for or acquisition of shares in another company,
- disposal of subscribed for or acquired shares in another company.

13. Tables

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

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

Bogdanka, 11 March 2015