DIRECTORS' REPORT ON OPERATIONS
OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2015 to 30 June 2015

BOGDANKA, AUGUST 2015

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1. Structure of the Lubelski Węgiel BOGDANKA Group

As at 20 August 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 Węgiel BOGDANKA S.A.", "LW BOGDANKA", the "Parent"), Łęczyńska Energetyka Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"), EkoTRANS Bogdanka Sp. z o.o. (hereinafter referred to as "EkoTRANS"), RG BOGDANKA Sp. z o.o. (hereinafter referred to as "RG Bogdanka") and MR Bogdanka Sp. z o.o. (hereinafter referred to as "MR Bogdanka")as the Subsidiaries.

As at the date of submitting this Report, i.e. 20 August 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 covered by consolidation

The Subsidiaries: Łęczyńska Energetyka, EkoTRANS Bogdanka, RG Bogdanka and MR Bogdanka were included in the Consolidated Interim Report of the LW BOGDANKA Group for the first half of 2015, by the full consolidation method.

Information about the Parent of the LW BOGDANKA Group as at the date of submitting the quarterly report

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 Parent'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 Articles of Association of LW BOGDANKA, the business activities of the enterprise 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

LW BOGDANKA'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.

Information about Subsidiaries

Subsidiaries:

A) Łęczyńska Energetyka sp. z o.o.

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

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:	www.ekotrans-bogdanka.pl
E-mail	biuro@ekotrans-bogdanka.pl

Industry Identification Number (REGON):	061551847
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 transport, as well as disposal and 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:	www.rgbogdanka.pl
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 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:	www.mrbogdanka.pl
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 repair and regeneration services and manufacturing steel structures, as well as providing services to LW BOGDANKA.

1.2. Changes in the structure of the LW BOGDANKA Group

In the first half of 2015, there were no changes in the structure of the LW BOGDANKA Group or in the Group's organisational and capital associations with other entities. In the period in question, there was no change either in the structure of the LW BOGDANKA Group that would result from merger of business entities, takeover or sale of the Group's entities, long-term investments or division, restructuring or discontinuation of activities.

2. OWNERSHIP CHANGES IN LW BOGDANKA IN THE FIRST HALF OF 2015

2.1. Shareholders directly or indirectly holding substantial shareholdings

Table 1 The shareholding structure of LW BOGDANKA S.A. at the date of submitting the previous periodical report, i.e. 30 April 2015 and 20 August 2015

Shareholder	30 April 2015		20 August 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*	5,157,502	15.16	5,157,502	15.16
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	22,259,758	65.45	22,259,758	65.45
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the notification received on 7 April 2015 described in Current Report No. 3/2015.
** 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.

2.2. Table of holdings of shares of LW BOGDANKA or entitlements to them by the management and supervisory personnel of LW BOGDANKA

Table 2 Table of holdings of shares of LW BOGDANKA as at the date of submitting the interim report

Name and surname	Number of the Company's shares as at the date of submitting the Report for Q1 2015, i.e. 30 April 2015	Number of the Company's shares as at the date of submitting the Report for H1 2015, i.e. 20 August 2015
Management Board		
Zbigniew Stopa	5,703	5,703
Roger de Bazelaire	0	0
Waldemar Bernaciak	2,162	2,162
Krzysztof Szlaga	0	0
Supervisory Board		
Witold Daniłowicz	0	0
Eryk Karski	0	0
Stefan Kawalec	0	0
Raimondo Eggink	0	0
Robert Bednarski	0	0
Dariusz Formela	0	0
Tomasz Mosiek	0	0
Michał Stopyra	0	0

*According to declarations of the Management Board and Supervisory Board Members.

By virtue of the Resolution of 30 September 2013 and as part of the Management Options Scheme, the Supervisory Board allocated a total of 1,102,032 Options for 2013-2017. Members of the Management Board were allocated the Options as follows: Zbigniew Stopa, President of the Management Board, received 183,672

Options, each of the remaining Members of the Management Board, i.e. Waldemar Bernaciak, Roger de Bazelaire and Krzysztof Szlaga received 122,448 Options. The remaining 551,016 Options were allocated to senior management officers of key importance for the Company's development. This was announced by the Company in Current Report No. 35/2013 of 30 September 2013. Options carry the right for eligible persons to acquire series A warrants free of charge. The warrants, in turn, carry the right to acquire series D shares.

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

As at 30 June 2015, a total of 1,143,863 options were allocated within the Management Options Scheme.

On 5 May 2015, upon assessment of the financial statements for 2014, the Company's Supervisory Board established that the UCCPr criterion which gives the right to exercise the Options has been satisfied, unlike the EPS criterion, which has not been fulfilled. Therefore, the eligible persons have the right to exercise the 50% of Options for a given year.

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

3. BASIC FINANCIAL AND ECONOMIC FIGURES OF THE LW BOGDANKA GROUP

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

Current market situation (oversupply of coal, price pressure exerted by the customers, sale of slow moving coal at lower prices) forces the Group, and in particular the Parent, to undertake actions aimed at maintaining the liquidity and profit on a satisfactory level. The Parent monitors its ratios and cash levels on an ongoing basis. The current agreements (with respect to bond issue, overdraft facility) together with the amount of cash in hand secure financing for the upcoming 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 programme (to trim down the coal extraction unit cost). 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). Works to prepare new excavations for operational exploitation are carried out in such a manner so as to ensure the continuity of extraction. In addition, 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.

3.1.1. Production, sale and inventories of coal

In the second quarter of 2015, the production of commercial coal in the Parent decreased by nearly 6% compared to the same period of 2014. In the period from January to June 2015, the production of commercial coal totalled PLN 3,891,000, which shows a decrease of 8.5% compared to the same period of 2014. The decrease in commercial coal production is related to the adverse market situation (lack of demand for coal) – coal production does not factor in full production capacity, but is adjusted to the level of sales and warehouse capacity of the Parent.

Table 3 Commercial coal production by LW BOGDANKA for Q2 2015 and 2014, and 2Qs 2015 and 2014 ['000 tonnes]

2015	2014	2015	2014	Change 2015 / 2014	
Q2		2Qs		Q2 / Q2	2Qs / 2Qs
1,901	2,015	3,891	4,253	-5.7%	-8.5%

Table 4 Structure of commercial coal production by LW BOGDANKA for Q2 2015 and 2014, and 2Qs 2015 and 2014

	2015	2014	2015	2014
	Q2		2Qs	
Fine coal	98.4%	98.2%	98.6%	98.5%
Nut coal	0.4%	0.3%	0.3%	0.3%
Pea coal	1.2%	1.5%	1.1%	1.2%
Total	**100.0%**	100.0%	100.0%	100.0%

In all analysed periods the structure of sales did not change significantly – power fine coal remained the dominant assortment (its share in the production accounted for more than 98%).

In the second quarter of 2015 the sales of coal fell by nearly 11% compared to the second quarter of 2014. In the period between January and June 2015, the sale of commercial coal amounted to 3,821,000, i.e. by 11.7% less than in the same period of 2014.

Table 5 Commercial coal sales by LW BOGDANKA for Q2 2015 and 2014, and 2Qs 2015 and 2014 ['000 tonnes]

2015	2014	2015	2014	Change 2015 / 2014	
Q2		2Qs		Q2 / Q2	2Qs / 2Qs
1,876	2,102	3,821	4,327	-10.8%	-11.7%

Chart 1 Analysis of the extraction of coal

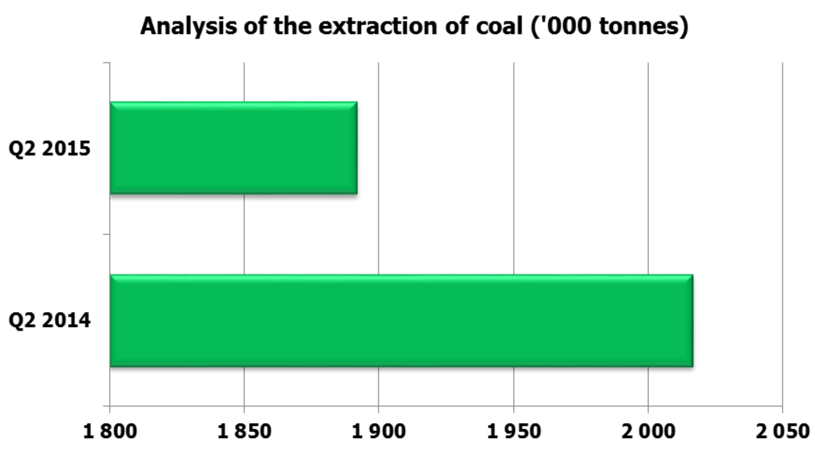
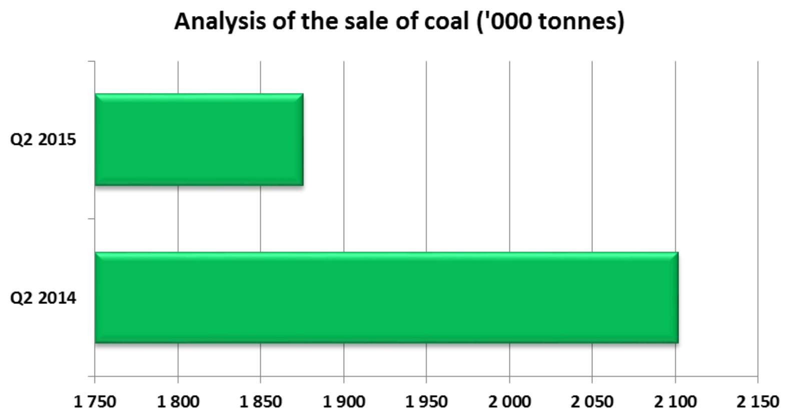


Chart 2 Analysis of the sale of coal



At the end of the second quarter of 2015 the level of coal inventories equalled 376,000 tonnes, which means an increase of 70,000 tonnes, i.e. by 22.9% compared to the level as at 31 December 2014. At the same time, inventories as at 30 June 2015 are higher by 233,000 tonnes, i.e. 162.9%, than inventories as at 30 June 2014. The level of coal inventories presented at the end of the second quarter of 2015 corresponds to ca. twelve days of commercial coal production of the Parent (based on average daily production for six months).

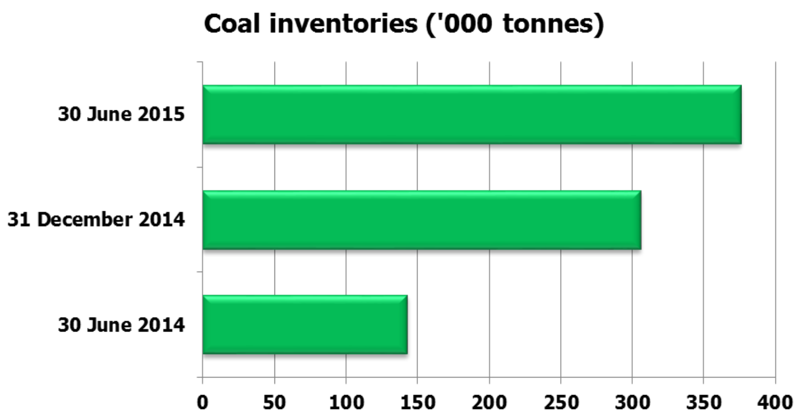
Table 6 Inventories of coal after Q2 2015 and 2014, and as at 31 December 2014 ['000 tonnes]

30 Jun. 2015*	31 Dec. 2014**	30 Jun. 2014	Change [%] 30 Jun. 2015 / 31 Dec. 2014	Change [%] 30 Jun. 2015 / 30 Jun. 2014
376	306	143	22.9%	162.9%

*The level of the inventories of coal accounted for a coal deposit (93,000 tonnes) for one of the Company's customers. As at the date of this Report, the volume of the deposit fell down to about 47,000 tonnes.

**The level of inventories of coal accounted for a coal deposit (116,000 tonnes) for several customers. The deposit was settled in full (delivered to the recipient) in the first quarter of 2015.

Chart 3 Coal inventories



3.1.2. Revenue and key customers

In the second quarter of 2015, the LW BOGDANKA Group generated revenue of PLN 415,281,000, which means a decrease by 10.5% compared to the second quarter of 2014. The revenue for the period between January-June 2015 amounted to PLN 843,560,000, compared to PLN 945,371,000 in the same period of 2014.

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 more than 95% of the Group's revenue.

In the consolidated interim 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 interim income statement for the period from 1 January to 30 June 2015 was adjusted by PLN 32,897,000, while in the same period of the previous year – by PLN 49,488,000.

Approx. 95% of coal sales (in terms of value) realised in the period from 1 January to 30 June 2015 were carried out between the Parent and Elektrownia Kozienice S.A. – the Enea Group, 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. In the period from 1 January to 30 June 2014, the above mentioned customers held a share in the revenue from coal sales of about 91%.

Table 7 Dynamics of changes in product range with respect to revenue of the LW BOGDANKA Group in Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]

	2015	2014	2015	2014	Change 2015 / 2014	
	Q2		2Qs		Q2	2Qs
Sales of coal	398,830	443,738	805,443	900,682	-10.1%	-10.6%
Sales of ceramics	526	1,097	844	2,590	-52.1%	-67.4%
Other activities	12,712	16,295	31,685	36,860	-22.0%	-14.0%
Sales of goods and materials	3,213	2,701	5,588	5,239	19.0%	6.7%
Total revenue	**415,281**	**463,831**	**843,560**	**945,371**	**-10.5%**	**-10.8%**

In the period between 1 January 2015 and 30 June 2015, the revenue from other activities (including revenue of subsidiaries) amounted to PLN 31,658,000, compared to PLN 36,860,000 in the same period of the previous year In the second quarter of 2015, the revenue from other activities equalled PLN 12,712,000 (3.1% of total revenue), compared to PLN 16,295,000 (3.5% of revenue) in the same period of 2014 (-22%). 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 decline of revenue in this group);
- revenue generated by Łęczyńska Energetyka from the sale of heat energy to third parties;
- revenue on industrial activities provided for companies that perform works assigned by the Parent;
- revenue on lease of non-current assets.

The share of revenue from the sale of goods and materials in the second quarter of 2015 increased from 0.6% to 0.8% compared to the second quarter of 2014. In the analysed period of 2015 and 2014, the dominant position in the amount was revenue from the sale of scrap (on the part of the Parent).

Table 8 Structure of the LW BOGDANKA Group revenue by product range in Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]

	2015	2014	2015	2014
	Q2		2Qs	
Sales of coal	96.0%	95.7%	95.5%	95.2%
Sales of ceramics	0.1%	0.2%	0.1%	0.3%
Other activities	3.1%	3.5%	3.7%	3.9%
Sales of goods and materials	0.8%	0.6%	0.7%	0.6%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The activities of the Group are primarily concentrated in Poland. In the first half of 2015, share of export in the total revenue increased to 0.3% (PLN 2,683,000) primarily due to export of coal behind the eastern border. In the first half of 2014 export sales primarily concerned ceramics.

Table 9 Geographic structure of revenue of the LW BOGDANKA Group in Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]

	2015		2014		2015		2014	
	Q2	Structure	Q2	Structure	2Qs	Structure	2Qs	Structure
Domestic sales	415,158	100.0%	463,658	100.0%	840,877	99.7%	945,121	100.0%
Export sales	123	0.0%	173	0.0%	2,683	0.3%	250	0.0%
Total revenue	**415,281**	**100.0%**	**463,831**	**100.0%**	**843,560**	**100.0%**	**945,371**	**100.00%**

3.2. Costs of LW BOGDANKA

This section presents costs of LW BOGDANKA by type and function. The recording of prime costs by type covers all expenditure related to the factors and means of production used by the Company in its operating activities. The costs incurred, in accordance with the formula presented, reflect the use of a given production means or resources (e.g. materials, energy or labour costs) regardless of whether these will be charged to the costs of a given period as related to the product excavated and sold (commercial coal) or whether they have been used by the Company to finance the construction of a given facility with its own funds (incl. longwall galleries) and in the future, following the completion and settlement of a given investment task, they will be activated and depreciated as non-current assets, constituting depreciation costs of the period in question.

3.2.1. Costs by type

The second quarter

In the second quarter of 2015 costs by type incurred by LW BOGDANKA S.A. amounted to PLN 386,034,000 (PLN -56,598,000 y-o-y), which means that they were lower by 12.8% than in the second quarter of 2014. The decrease in costs in the second quarter of 2015 was largely the result of recorded decrease in costs of external services, and materials and energy consumption.

Total cost of materials and energy consumption went down by 21.4% compared to the second quarter of 2014, and totalled PLN 86,654,000. In the period under analysis, the cost of energy (understood as the sum of the costs of electricity, hot water and other utilities) slightly increased, with the cost of materials used going down – this is related to the fact that the scope of preparatory works was smaller (4.9 km of galleries were completed in Q2 2015, compared to 7.1 km in the last year, which represents a decrease of 31%).

The value of external services in the second quarter of 2015 compared to the second quarter of 2014 went down from PLN 117,965,000 to PLN 79,405,000 (-32.7%). The analysed period saw decreases in all types of external services, however, the most significant changes affected drilling and mining services (in connection with drilling and reconstructing excavations), repairs and maintenance, and transport of stone, which was caused by limitation of the production.

The value of employee benefits went up by PLN 2,088,000 on a year-to-year basis, remunerations and mandatory contributions on remunerations are slightly higher (average headcount in Q2 2015 went down in relation to the same period of 2014), at the same time the value of the option scheme recognised under costs in 2015 was higher.

The value of depreciation and amortisation went up by 4.4% (to PLN 92,939,000) – the value of depreciation of non-current assets went up, whereas the natural depreciation fell down.

The value of taxes, fees and charges paid went down in the second quarter of 2015 to PLN 7,466,000 from PLN 7,560,000 in the second quarter of 2014 – the exploitation fee was lower, while real property tax was slightly higher.

The value of other costs increased from PLN 805,000 (Q2 2014) to 853,000 (Q2 2015).

Two quarters

In the period between 1 January 2015 and 30 June 2015, LW BOGDANKA incurred costs by type in the amount of PLN 824,542,000, i.e. by 11.1% (PLN 103,463,000) lower than in the same period of 2014. The decrease of costs noted in the analysed period was largely influenced by the reduction in the costs of external services and consumption of materials and energy.

The total value of materials and energy consumption decreased by 17.3% compared to the first half of 2014, and amounted to PLN 193,292,000. In the analysed period the value of energy (understood as the sum total of electricity, heat and water energy, and other utilities) slightly increased, with the value of consumed materials going down at the same time – it was caused by a smaller extent of performed preparatory works (in the first half of 2015 the Company completed 10.2 km of galleries compared to 16.4 km in the previous year, which means a decrease of 37.8%).

The value of third-party services in the first half of 2015, compared to the first half of 2014, decreased from PLN 235,148,000 to PLN 169,140,000 (-28.1%). In the period under analysis, the value of all third-party services decreased, although the most significant changes were recorded for drilling and mining services (in connection with drilling and reconstructing excavations), repairs and maintenance, and transport of stone, which was caused by limitation of the production.

The value of employee benefits fell by PLN 9,413,000 on a year-to-year basis, while remunerations and mandatory contributions on remunerations remained almost unchanged. At the same time, the value of an allowance for the Company Employee Benefit Fund recognised in the costs for 2015 was lower, as was the value of the option scheme recognised in the costs. The headcount on a year-to-year basis, as at 30 June, fell by 200 people to 4,720.

The value of depreciation and amortisation increased by 6.3% (to PLN 187,902,000) – depreciation of fixed assets increased, whereas the natural depreciation decreased.

The value of taxes, fees and charges was slightly lower in the first half of 2015, falling to PLN 17,149,000 from PLN 17,380,000 in the first half of 2014 – the exploitation fee was lower (due to extraction volume limitations), while the real property tax was higher.

The value of other costs increased from PLN 14,096,000 (H1 2014) to PLN 15,987,000 (H1 2015), with an increase in the costs of property insurance.

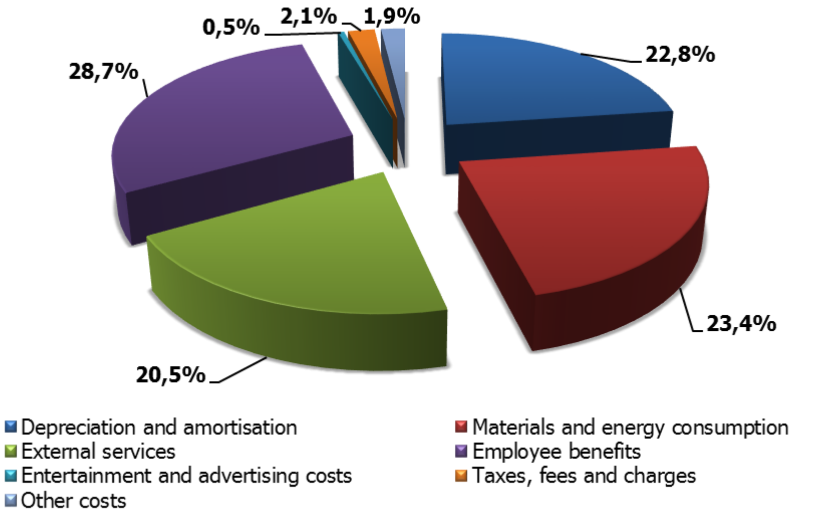
The result of an adjustment of costs by type by change in inventory of products and accruals and deferrals, the value of activities for the Company's own needs and the costs of goods and materials sold, will give own cost of sales for the first half of 2015 amounting to PLN 744,188,000. As compared to the same period of the previous year, it is lower by 8.8% (with a year-to-year decrease by 11.7% in the amount of coal sold).

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

Item	2015	2014	Change [%] 2015 / 2014	2015	2014	Change [%] 2015 / 2014
	Q2			**2Qs**		
Net production [in '000 tonnes]	1,901	2,015	-5.7%	3,891	4,253	-8.5%
Sales [in '000 tonnes]	1,876	2,102	-10.8%	3,821	4,327	-11.7%
Amortisation/depreciation	92,939	89,058	4.4%	187,902	176,775	6.3%
Materials and energy consumption	86,654	110,245	-21.4%	193,292	233,726	-17.3%
External services	79,405	117,965	-32.7%	169,140	235,148	-28.1%
Employee benefits	116,759	114,671	1.8%	236,953	246,366	-3.8%
Entertainment and advertising costs	1,958	2,328	-15.9%	4,119	4,514	-8.8%
Taxes, fees and charges	7,466	7,560	-1.2%	17,149	17,380	-1.3%
Other costs	853	805	6.0%	15,987	14,096	13.4%
Total costs by type	**386,034**	**442,632**	**-12.8%**	**824,542**	**928,005**	**-11.1%**
Activities for the Company's own needs	-42,188	-60,190	-29.9%	-94,900	-126,630	-25.1%
Accruals and deferrals	19,124	26,929	-29.0%	22,589	22,578	0.0%
Value of coal obtained from excavations	-15,442	-20,412	-24.3%	-32,897	-49,488	-33.5%
Provisions and other presentation adjustments (IAS)	8,360	7,891	5.9%	26,879	21,202	26.8%
Total costs of production	**355,888**	**396,850**	**-10.3%**	**746,213**	**795,667**	**-6.2%**
Change in inventory of products	2,118	15,811	-86.6%	-7,494	15,181	-149.4%
Costs of goods and materials sold	3,138	2,690	16.7%	5,469	5,188	5.4%
Own cost of sales, including:	**361,144**	**415,351**	**-13.1%**	**744,188**	**816,036**	**-8.8%**
Costs of products, goods and materials sold	329,254	381,431	-13.7%	679,765	748,898	-9.2%
Selling costs	9,395	10,439	-10.0%	18,800	20,323	-7.5%
Administrative costs	22,495	23,481	-4.2%	45,623	46,815	-2.5%

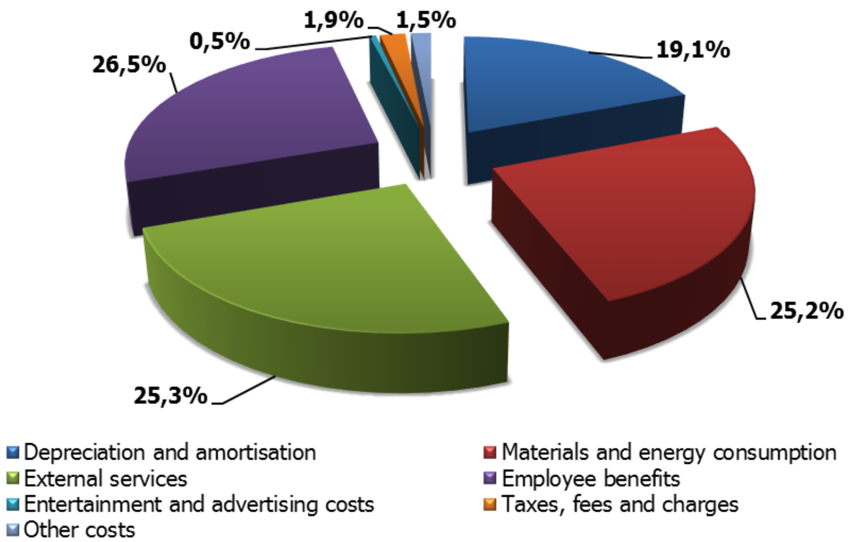
The changes presented in the group of costs by type had an impact on the change in the structure thereof. In the first half of 2015 (compared to the same period of the previous year) the share of depreciation and amortisation costs went up to 22.8%. A decrease was noted with respect to the share of external services costs (to 20.5%) and the costs of materials and energy used (to 23.4%). The costs of employee benefits, external services and materials consumption in the first half of 2015 accounted for ca. 73% of the total costs, while in the same period of 2014, they accounted for ca. 77% of the total costs.

Chart 4 Structure of costs by type in H1 2015



[*left column*]*: Depreciation and amortisation, External services, Entertainment and advertising costs, Other costs*
[*right column*]*: Materials and energy consumption, Employee benefits, Taxes, fees and charges*

Chart 5 Structure of costs by type in H1 2014



3.2.2. Costs by function

In the second quarter of 2015 the own cost of sales (by function) amounted to PLN 361,144,000 and was lower by 13.1% than the cost in the second quarter of 2014. A year-to-year decrease results in the most part from lower costs by type incurred and a lower decline in inventories of coal during the second quarter of 2015. Costs by function in the period between January and June 2015 were lower by PLN 71,848,000 than in the analogous period of 2014, and amounted to PLN 744,188,000.

Table 11 Costs by function of LW BOGDANKA S.A. [PLN '000]

Item	2015	2014	Change 2015 / 2014	2015	2014	Change 2015 / 2014
	Q2			2Qs		
Net production [in '000 tonnes]	1,901	2,015	-5.7%	3,891	4,253	-8.5%
Sales [in '000 tonnes]	1,876	2,102	-10.8%	3,821	4,327	-11.7%
Costs of products, goods and materials sold	329,254	381,431	-13.7%	679,765	748,898	-9.2%
Selling costs	9,395	10,439	-10.0%	18,800	20,323	-7.5%
Administrative costs	22,495	23,481	-4.2%	45,623	46,815	-2.5%
Own cost of sales	**361,144**	**415,351**	**-13.1%**	**744,188**	**816,036**	**-8.8%**

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

Table 12 Structure of costs by function at LW BOGDANKA S.A.

Item	2015	2014	2015	2014
	Q2		2Qs	
Costs of products, goods and materials sold	91.2%	91.8%	91.4%	91.8%
Selling costs	2.6%	2.5%	2.5%	2.5%
Administrative costs	6.2%	5.7%	6.1%	5.7%
Own cost of sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**

3.3.Provisions at the LW BOGDANKA Group

Table 13 Balance-sheet provisions in the LW BOGDANKA Group at the end of Q2 2015 and 2014, and at the end of 2014 [PLN '000]

Item	As at 30 Jun. 2015	As at 31 Dec. 2014	As at 30 Jun. 2014	Change 30 Jun. 2015/ 31 Dec. 2014 [%]	Change 30 Jun. 2015/ 30 Jun. 2014 [%]
Employee provisions	245,260	226,724	214,015	8.2%	14.6%
Liabilities for real property tax	25,390	23,258	32,581	9.2%	-22.1%
Provision for mine closure costs	112,784	123,585	101,248	-8.7%	11.4%
Mining damage	7,907	9,155	12,230	-13.6%	-35.3%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	18,066	15,901	10,440	13.6%	73.0%
Other	25,635	25,295	24,555	1.3%	4.4%
TOTAL	**435,042**	**423,918**	**395,069**	**2.6%**	**10.1%**

The total provisions as at 30 June 2015 amounted to PLN 435,042,000, which means an increase by 2.6% compared to the value as at the end of 2014. Employee provisions on a year-by-year basis grew by 8.2% and amounted to PLN 245,260,000 as at 30 June 2015.

The change in provisions in the second quarter of 2015 amounted to PLN -13,447,000 compared to PLN +25,526,000 in the second quarter of 2014. The change in provisions in the first half of 2015 amounted to PLN + 11,124,000, while in the same period of the last year the change equalled PLN +44,924,000.

Table 14 Change in provisions in the LW BOGDANKA Group for Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]

Item	Change in Q2 2015	Change in Q2 2014	Change 31 Mar. 2015/ 31 Dec. 2014 [%]	Change in 2Qs 2015	Change in 2Qs 2014	Change 31 Mar. 2015/ 31 Dec. 2014 [%]
Employee provisions	-6,848	6,401	-	18,536	13,985	32.5%
Provision for real property tax	2,703	2,395	12.9%	2,132	4,735	-55.0%
Provision for mine closure costs	-7,143	6,831	-	-10,801	15,970	-
Mining damage	-586	-375	56.3%	-1,248	-703	77.3%
Provision for Social Insurance Institution (ZUS) claim for accident contributions	326	10,440	-96.9%	2,165	10,440	-79.3%
Other	-1,899	-166	1044.0%	340	497	-31.6%
TOTAL	**-13,447**	**25,526**	**-**	**11,124**	**44,924**	**-75.2%**

The tables below present items in which the changes in provisions were disclosed in the financial statements.

Table 15 Disclosure of changes to provisions in the financial statements of the Group for Q2 2015 [PLN '000]

Item	Change in provisions in Q2 2015	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet – increase in balance-sheet value of property, plant and equipment	Change disclosed in other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	-6,848	12,435	1,308	-	-12,504	-8,087
Provision for real property tax	2,703	2,703	-	-	-	-
Provision for mine closure costs	-7,143	688	850	-8,681	0	0
Mining damage	-586	-	-	-	-	-586
Other	-1,899	-1,777	109	-	-	-231
Provision for Social Insurance Institution (ZUS) claim for accident contributions	326	-62	388	-	-	0
TOTAL	**-13,447**	**13,987**	**2,655**	**-8,681**	**-12,504**	**-8,904**

Table 16 Disclosure of changes to provisions in the financial statements of the Group for 2Qs 2015 [PLN '000]

Item	Change in provisions in H1 2015	Including:				
		Change disclosed in operating activity (EBITDA)	Change disclosed below the result of operating activity - interest	Change disclosed only in the balance sheet – increase in balance-sheet value of property, plant and equipment	Change disclosed in other Comprehensive Income	Change disclosed only in the balance-sheet — use of the provision
Employee provisions	18,536	32,290	2,636	-	-887	-15,503
Provision for real property tax	2,132	4,587	-	-	-	-2,455
Provision for mine closure costs	-10,801	1,559	1,699	-14,059	-	-
Mining damage	-1,248	-	-	-	-	-1,248

Other	340	-	571	-	-	-231
Provision for Social Insurance Institution (ZUS) claim for accident contributions	2,165	1,538	627	-	-	0
TOTAL	**11,124**	**39,974**	**5,533**	**-14,059**	**-887**	**-19,437**

3.4. Selected financial data

3.4.1. Revenue, costs and profit/loss of the Group

Table 17 Analysis of the consolidated interim income statement [PLN '000]

	2015	**2014**	**Change [%] 2015 / 2014**	**2015**	**2014**	**Change [%] 2015 / 2014**
	Q2			**2Qs**		
Revenue	415,281	463,831	-10.5%	843,560	945,371	-10.8%
Costs of products, goods and materials sold, selling and administrative costs	361,988	414,201	-12.6%	743,813	810,636	-8.2%
Profit on sales	**53,293**	**49,630**	**7.4%**	**99,747**	**134,735**	**-26.0%**
Profit on sales margin (Gross margin)	*12.8%*	*10.7%*	*19.6%*	*11.8%*	*14.3%*	*-17.5%*
Other income	198	750	-73.6%	2,016	828	143.5%
Other costs	115	528	-78.2%	383	999	-61.7%
Net operating profit/loss	**53,376**	**49,852**	**7.1%**	**101,380**	**134,564**	**-24.7%**
Other net profit/loss	-208	-9,152	-97.7%	-60	-7,906	-99.2%
Operating profit (EBIT)	**53,168**	**40,700**	**30.6%**	**101,320**	**126,658**	**-20.0%**
EBIT margin	*12.8%*	*8.8%*	*45.5%*	*12.0%*	*13.4%*	*-10.4%*
EBITDA	**147,392**	**130,119**	**13.3%**	**291,787**	**304,268**	**-4.1%**
EBITDA margin	*35.5%*	*28.1%*	*26.3%*	*34.6%*	*32.2%*	*7.5%*
Finance income	1,756	2,250	-22.0%	3,262	4,601	-29.1%
Finance costs	4,322	5,368	-19.5%	11,370	14,463	-21.4%
Profit before taxation	**50,602**	**37,582**	**34.6%**	**93,212**	**116,796**	**-20.2%**
Pre-tax profit margin	*12.2%*	*8.1%*	*50.6%*	*11.0%*	*12.4%*	*-11.3%*
Income tax	7,794	8,758	-11.0%	17,714	25,372	-30.2%
Net profit for the financial year	**42,808**	**28,824**	**48.5%**	**75,498**	**91,424**	**-17.4%**
Net profit margin	*10.3%*	*6.2%*	*66.1%*	*8.9%*	*9.7%*	*-8.2%*
- attributable to shareholders of the Parent	42,822	28,836	48.5%	75,344	91,217	-17.4%

Chart 6 Analysis of the consolidated interim income statement on individual levels of the Group's operations in Q2 2015 and 2014

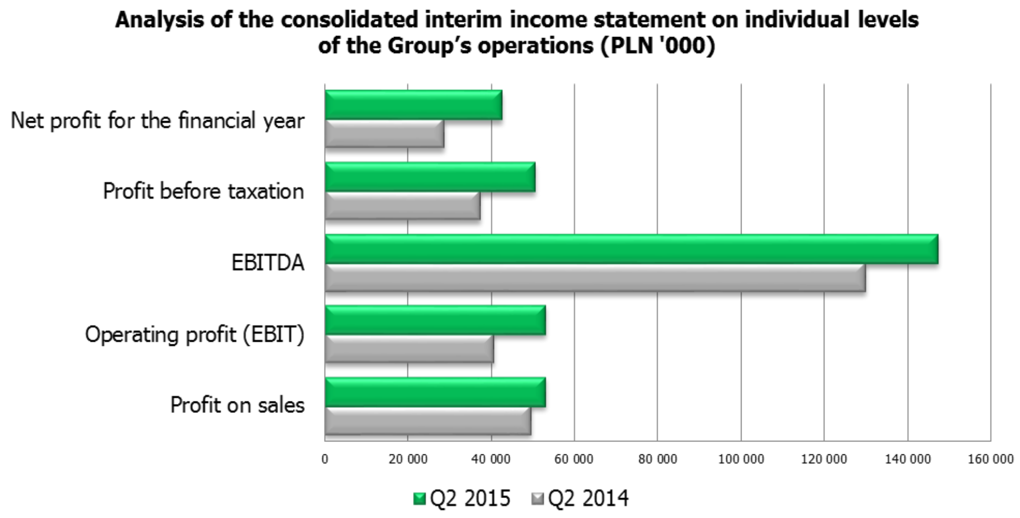
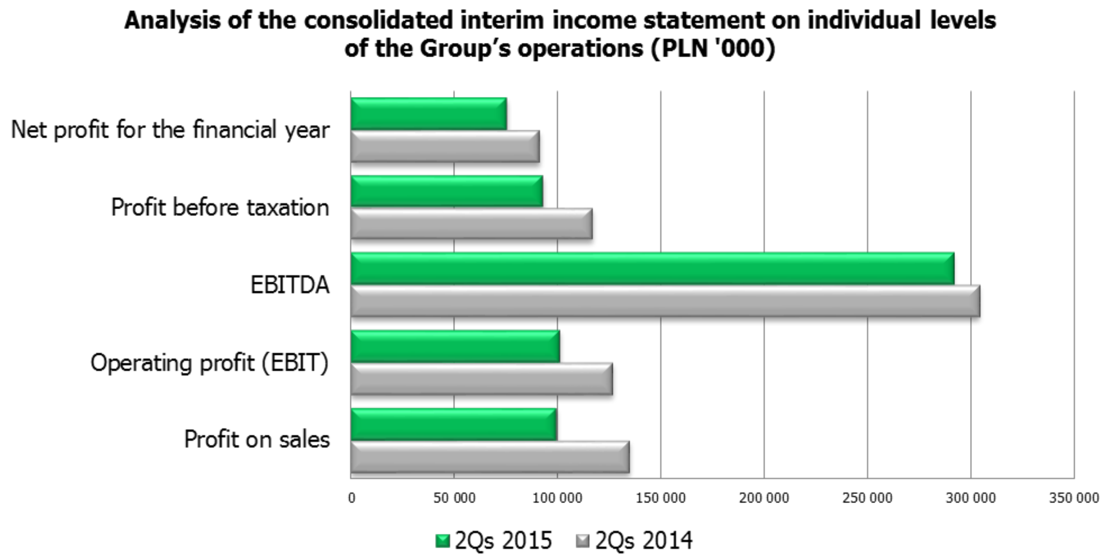


Chart 7 Analysis of the consolidated interim income statement on individual levels of the Group's operations in 2Qs 2015 and 2014



Revenue

The value of revenue for the second quarter of 2015 went down by 10.5% compared to the same period of the previous year and amounted to PLN 415,281,000.

In the period between 1 January 2015 and 30 June 2015 the Group generated revenue in the amount of PLN 843,560,000 as compared to PLN 945,371,000 in the same period of 2014.

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

In the second quarter of 2015 the costs of products, goods and material sold plus selling and administrative costs went down by 12.6% compared by the same period of the previous year and amounted to PLN 361,988,000. In the first half of 2015, the costs in question went down by 8.2% y-o-y.

Profit on sales

The profit on sales in the second quarter of 2015 went up by 7.4% compared to the second quarter of 2014 and amounted to PLN 53,293,000. Profit on sales in the first half of 2015 in the amount of PLN 99,747,000 was lower than the profit achieved in the first half of 2014 by 26.0%.

Other income

In the second quarter of 2015 other income amounted to PLN 198,000 compared to PLN 750,000 a year before. The value of liquidated damages (PLN 1,770,000) dominates the figure for H1 2015 (PLN 2,016,000).

Other costs and other net profits/losses

Other net losses in the second quarter of 2015 amounted to PLN 208,000 compared to PLN 9,152,000 in the second quarter of 2014 – which means a decrease by PLN 8,944,000. In 2014, the amount of PLN 9,152,000 refers to the income and costs related to the creation of a provision for liabilities to ZUS [Social Insurance Institution], the use of provisions for mining damages and the result on bargain acquisition. Changes presented in the second quarter are dominant also in terms of the entire half of the year. Data for the first half of the year indicate a decrease in other net losses by PLN 7,846,000 y-o-y.

EBIT

The operating profit in the second quarter of 2015 amounted to PLN 53,168,000 and was higher by 30.6% compared to the second quarter of 2014. EBIT margin in the second quarter of 2015 was 12.8%, i.e. it was higher by 4.0 p.p. than in the second quarter of the previous year. EBIT margin in the first half of 2015 was lower by 1.4 p.p. compared to the same period of 2014, and accounted for 12.0%.

EBITDA

EBITDA, i.e. operating profit of the Group plus depreciation and amortisation, in the second quarter of 2015 went up by 13.3% compared to the second quarter of 2014 and amounted to PLN 147,392,000. Depreciation and amortisation of the Group in the second quarter of 2015 amounted to PLN 94,224,000 compared to 89,419,000 in the same period of 2014.

EBITDA margin in the second quarter of 2015 equalled 35.5%, which shows an increase compared to the same period of 2014.

For the entire half of the year, the Group's EBITDA margin amounted to 34.6%, i.e. more by 2.4% compared to the same period in 2014 (when EBITDA dropped in the analysed period by 4.1%).

Finance income

Finance income in the second quarter of 2015 amounted to PLN 1,756,000, which represents a decrease of about 22% compared to the same period of 2014. This is due to the fact that market interest rate on deposits was reduced (at the same time the annual average level of cash in the Group went up).The same situation applies to the first quarter of 2015 and 2014.

Finance costs

In the second quarter of 2015 finance costs amounted to PLN 4,322,000 and were lower by 19.5% than the costs in the same period of 2014.

The finance cost for the six months of 2015 amounted to PLN 11,370,000 compared to PLN 14,463,000 in 2014 (decrease by 21.4%). The total indebtedness of the Group amounted to PLN 776,764,000 as at 30 June 2015 compared to PLN 599,071,000 as at 30 June 2014. In 2015 lower reference rates were in place, and there was a change in capitalised interest.

Profit before taxation

In the second quarter of 2015, the Group generated pre-tax profit which was higher by 34.6% than in the second quarter of 2014. Pre-tax result amounted to PLN +50,602,000 (Q2 2015) compared to PLN +37,582,000 (Q2 2014).

Profit before taxation for the first half of 2015 amounted to PLN 93,212,000 against PLN 116,796,000 in the same period of 2014.

Net profit for the financial year

In the second quarter of 2015 the Group generated net profit higher by 48.5% than in the second quarter of 2014 – it amounted to PLN 42,808,000 in 2015 compared to PLN 28,824,000 in 2014. Net profit in the period under analysis attributable to the shareholders of the Parent amounted to PLN 42,822,000 compared to PLN 28,836,000 in the same period of the previous year.

The net profit for the first half of 2015 was PLN 75,498,000 compared to PLN 91,424,000 (a decrease by 17.4%).

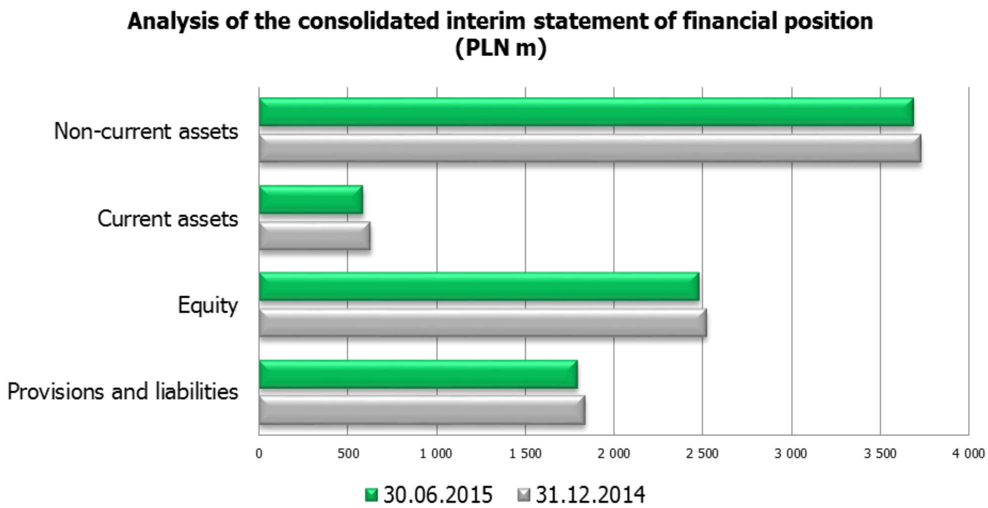
3.4.2. Balance sheet

Table 18 Selected financial information of the LW BOGDANKA Group [PLN '000]

	30 Jun. 2015	31 Dec. 2014	Change [%] 30 Jun. 2015 / 31 Dec. 2014
Total assets	4,281,522	4,364,415	-1.9%
Return on Assets (ROA)*	5,9%	6,6%	-10.6%
Non-current assets	3,690,290	3,730,165	-1.1%
Current assets	591,232	634,250	-6.8%
Equity	2,482,677	2,523,827	-1.6%
Return on Equity (ROE)*	10,2%	10,9%	-6.4%
Provisions and liabilities	1,798,845	1,840,588	-2.3%

* - the calculations consider the average level of assets and equity (as at 30 June 2015 + as at 31 December 2014)/2

Chart 8 Analysis of the consolidated interim statement of financial position



Assets

The balance-sheet total as at 30 June 2015 went down to PLN 4,281,522,000 (i.e. by PLN 82,893,000) compared to the value as at 31 December 2014. The non-current assets went down by PLN 39,875,000, while current assets went down by PLN 43,018,000. Within current assets, the value of inventories went up by more than 2%, trade and other receivables going down by ca. 23%, and cash and cash equivalents going up by 13.8%. The level of coal inventories presented at the end of the second quarter of 2015 corresponds approximately to twelve days of commercial coal production of the Parent (on the basis of average daily production for six months).

As at 30 June 2015 ROA went down by 0.7 p.p. and equalled, as at the balance-sheet date, 5.9%.

Equity and liabilities

The equity went down by 1.6%. It was mainly the result of settling the profit/loss for 2014, and adding net comprehensive income for the six months of 2015 to equity.

Provisions and liabilities went down by 2.3% compared to the value as at 31 December 2014: current liabilities decreased by 6.6% (mainly due to the decrease of "trade creditors and other liabilities"), while non-current liabilities increased by 0.2%.

As at 30 June 2015, a decrease of 0.7 p.p. in return on equity was noted in relation to the end of 2014. The ratio as at 30 June 2015 accounted for 10.2% compared to 10.9% as at 31 December 2014.

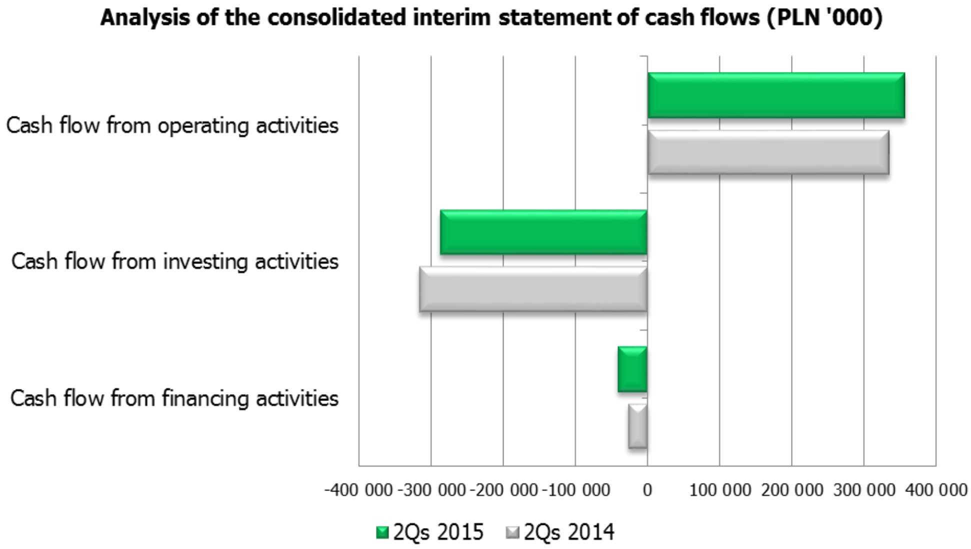
3.4.3. Cash flows

Table 19 Consolidated interim cash flows in Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]

	2015	2014	Change [%] 2015 / 2014	2015	2014	Change [%] 2015 / 2014
	Q2			2Qs		
Cash flow from (used in) operating activities	184,754	165,395	11.7%	356,835	334,959	6.5%
Cash flow from (used in) investing activities	-158,966	-183,422	-13.3%	-288,171	-316,294	-8.9%
CFFO*	**25,788**	**-18,027**	**-**	**68,664**	**18,665**	**267.9%**
Cash flow from (used in) financing activities	-78,966	26,098	-	-41,609	-26,589	56.5%

* sum of cash flow from operating and investing activities

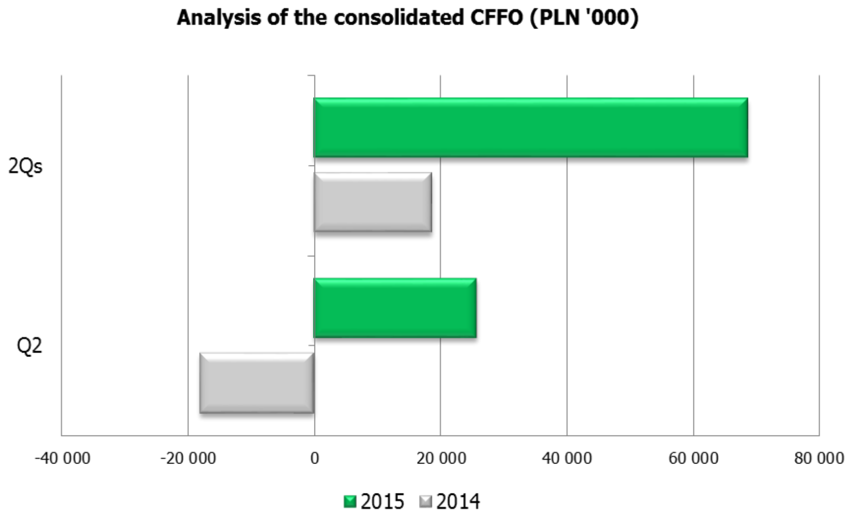
Chart 9 Analysis of the consolidated interim statement of cash flows



In the second quarter of 2015 the Group generated net cash flow from operating activities higher by 11.7% than in the second quarter of 2014, in the period from 1 April 2015 to 30 June 2015 it amounted to PLN 184,754,000 compared to PLN 165,395,000 a year before. During the entire H1, the Group generated cash flow from operating activities in the amount of PLN 356,835,000 (+6.5% y-o-y).

Cash flow from investing activities decreased (in absolute terms) in the second quarter of 2015 by 13.3% (to PLN 158,966,000) compared to the same period of 2014. Cumulatively, for the six months of 2015, cash flow from investing activities were lower by 8.9% in comparison to the cash slow in the same period of last year.

Chart 10 Analysis of the consolidated CFFO from Q2 2015 and 2014, and 2Qs 2015 and 2014 [PLN '000]



Despite difficult market situation, activities undertaken by the Group brought positive results in the form of an increase in the CFFO, both in the second quarter of 2015 and in the first half of 2015 (compared to data for the same periods in 2014). The CFFO in the second quarter of 2015 amounted to PLN +25,788,000, compared to PLN +68,664,000 for two quarters of 2015.

In the period from 1 April to 30 June 2015 the Group recorded negative cash flow from financing activities in the amount of PLN 78,966,000 (mostly repayment of an overdraft facility).

3.4.4. Debt and financing structure of the LW BOGDANKA Group

Table 20 Debt ratios of the LW BOGDANKA Group.

	30 Jun. 2015	31 Dec. 2014	Change 30 Jun. 2015 / 31 Dec. 2014
Overall debt ratio	42.0%	42.2%	-0.2 p.p.
Ratio (debt* plus employee liabilities)/EBITDA	1.39	1.39	0.0%
Net debt /EBITDA ratio	0.75	0.82	-8.5%
Debt to equity ratio	72.5%	72.9%	-0.4 p.p.
Fixed capital to non-current assets ratio	96.0%	95.7%	0.3 p.p.
Current debt ratio	14.6%	15.3%	-0.7 p.p.
Non-current debt ratio	27.4%	26.8%	0.6 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 30 June 2015 slightly went down compared to the ratio as at 31 December 2014 and reached 42.0% - the share of borrowed capital in the overall financing sources of the Group decreased.

The level of the Group's debts as at 30 June 2015 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 at the end of the second quarter of 2015 remained the same, and totalled 1.39. A comparison between the ratio as at 30 June 2015 and the ratio as at 31 December 2014 shows a decrease in EBITDA (calculated progressively for the past four quarters) and the debt.

Ratio net debt/EBITDA

The ratio showing net debt (sum of interest-bearing current- and non-current liabilities minus cash and cash equivalents) to EBITDA went down from 0.82 as at 31 December 2014 to 0.75 as at 30 June 2015. Net debt went down by about PLN 64 million with a decrease of EBITDA by about PLN 12 million (EBITDA calculated progressively for the last 4 quarters).

Debt to equity ratio

The debt to equity ratio as at 30 June 2015 went down by 0.4 p.p. compared to the ratio as at 31 December 2014 and reached 72.5% - liabilities decreased more than equity.

Fixed capital to non-current assets ratio

The fixed capital to non-current assets ratio was 96.0% (as at 30 June 2015) compared to 95.7% (as at 31 December 2014) – in the analysed period the value of fixed capital (equity plus non-current liabilities less provisions) decreased less than non-current assets.

Liquidity ratios

Table 21 Liquidity ratios [days]

	30 Jun. 2015	31 Dec. 2014	Change 30 Jun. 2015 / 31 Dec. 2014
Current liquidity ratio	1.08	1.06	1.9%
Quick liquidity ratio	0.83	0.84	-1.2%

In the period covered by the Consolidated Interim Financial Statements, the liquidity ratios of the Group remained at a safe level, and the Group is not having any difficulties in settling its liabilities.

Turnover ratios

Table 22 Turnover ratios [days]

	Formula	30 Jun. 2015	31 Dec. 2014	Change 30 Jun. 2015 / 31 Dec. 2014
1. Inventory turnover	Average inventories / costs of goods, products and materials sold	36	30	20.0%
2. Debtors collection rate*	Average debtors / revenue	57	49	16.3%
3. Creditors payment rate**	Average creditors / costs of goods, products and materials sold	103	89	15.7%
4. Operating cycle	1 + 2	93	79	17.7%
5. Cash conversion cycle	4 - 3	-10	-10	0.0%

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

Inventory turnover

The inventory turnover ratio as at 30 June 2015 went up by 20% compared to the ratio as at 31 December 2014, 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 57 days (as at 30 June 2015), as compared to 49 days (as at 31 December 2014). The increase in the rate is attributable to lower 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 14 days to 103 days, as compared to the end of 2014. 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 93 days, as compared to 79 days as at 31 December 2014. The time necessary for realising the Group's current assets got longer by 14 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 30 June 2015 (the same value as at 31 December 2014). The negative value of the cash conversion cycle means that the Group uses non-interest-bearing borrowed capital.

3.5. Information on sources of financing and financial instruments

Forward foreign exchange contracts:

Derivative transactions are entered into in order to hedge cash flows resulting from contracts denominated in a currency other than PLN. During 2015 the Parent was a party to three forward foreign exchange transactions.

The first and the second hedge of payment under contract was established for the performance of the agreement worth EUR 39.75 million covering the supply and assembly of a wall plough system for low seams. Forward transactions were entered into on 24 March 2014, with the value date falling in the first quarter of 2015. The total value of the hedge is EUR 27.83 million. On 27 February 2015 the forward transaction in the amount of EUR 23.85 million was settled. Payment for liabilities hedged with the forward transaction was made on 2 April 2015 by physical currency delivery. On 31 March 2015 the next forward transaction in the amount of EUR 3.98 million was settled. The settlement was effected by physical currency delivery. By the date of this Report, the payment for liabilities hedged with this transaction has not been made. The third hedge was established for the performance of the agreement for the sale of coal in which the payment was denominated in USD. The forward transaction was entered into on 23 December 2014 for an amount of USD 930,000. The transaction was settled by physical currency delivery on 27 February 2015.

As at 30 June 2015 the Company did not have any forward transactions and other derivatives.

Guarantees:

On 27 May 2015, the Parent and Bank Polska Kasa Opieki S.A. signed Annex 1 to Guarantee Line Agreement 2014/107/DDF. Under the Annex, the Parent may give instructions for Guarantees during the guarantee line limit availability period until 27 May 2016. The validity period of a guarantee may not be longer than 24 months. The expiry date of any of the guarantees may be later than 27 May 2018.

Bonds:

On 30 June 2014 the Parent concluded with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego an agreement on a bond issue programme, which provides for the issue of bonds by LW BOGDANKA S.A. up to the amount of PLN 600,000,000.

On 1 August 2014 Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego jointly acquired two series of bonds. In performance of the provisions of the Programme, the Guarantors acquired jointly 300 registered bonds with a nominal value of PLN 1 million each, and jointly 100 registered bonds with a nominal value of PLN 1 million each.

The aggregate amount of bonds acquired by the Guarantors stood at PLN 400 million. The bond redemption date is 30 June 2015.

In accordance with the Bond Issue Programme rules, the Company may, during the period of the programme, issue successive bond series as part of tranches, with the proceeds to be used to refinance the previous bond issues as part of the programme (rollover). Consequently, for the purpose of refinancing its LWB01A300615 and LWB02A300615 bond series, on 30 June 2015 the Company issued a total of 300 registered bonds identified as the LWB01B300616 as part of Tranche 1 with the par value of PLN 1,000,000 (one million zlotys) each and a total of 100 registered bonds identified as the LWB02B300616 series as part of Tranche 2 with the par value of PLN 1,000,000 (one million zlotys) each. These bonds were acquired by the Guarantors. The total par value of the bonds acquired by the Guarantors is PLN 400,000,000.

The maturity date of series LWB01B300616 bonds and series LWB02B300616 bonds is 30 June 2016.

The Programme sets out that the Company has the right to issue subsequent series of bonds under the tranche concerned in order to refinance the previous issue under the tranche concerned (rollover), which supports the long-term nature of the Programme. As at 30 June 2015 the Parent issued bonds in the aggregate amount of PLN 400 million. Bonds still to issue stand at PLN 200 million.

Additionally, a programme started in 2013 is in place at the Company, under which bonds with the total value of PLN 300,000,000 were issued.

Loans:

On 10 April 2014 a tender for a bank service entailing the advancement of a revolving overdraft credit facility in PLN up to the limit of PLN 150,000,000 and the servicing thereof was awarded (the agreement was signed on 21 May 2014). As at 30 June 2015, the Group made use of the above credit line available in the current account.

In the period from 1 January 2015 to 30 June 2015 the Group did not use any other financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions resulting from changes in interest rates and loss of solvency.

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

The Group is of the opinion that the risk associated with trade creditors is limited as the Group continuously analyses inflows and outflows - knows in advance what amounts will be due, and still has an unused limit with respect to bonds and a loan facility at mBank.

3.6. Capital investments and deposits in the LW BOGDANKA Group

In the first half of 2015, the Group made no capital investments.

The value of cash held by the Group as at the end of June 2015 amounted to PLN 312,483,000, out of which the funds of PLN 290,874,000 belonged to the Parent. The amount of PLN 312,483,000 is disclosed as follows:

- PLN 89,947,000 is disclosed in non-current assets,
- PLN 222,536,000 is disclosed in current assets.

The amount of PLN 89,947,000 covers funds accumulated by the Parent in the Mine Closure Fund, to be allocated for the coverage of costs of a mine closure (these resources are held in bank deposit).

The amount of PLN 222,536,000 includes cash (cash available) held in short- and mid-term bank deposits (including overnight deposits) – the level of deposits depends on internal forecasts regarding inflows and outflows. In accordance with the adopted Strategy, the Parent maintains the amount of available cash at the levels equal to the value of average monthly sales revenue (1/12 of forecast annual sales revenue). The funds accumulated at the Parent amount to PLN 200,927,000, while the funds accumulated at subsidiaries amount to PLN 21,609,000 (primarily at Łęczyńska Energetyka – PLN 15,442,000).

3.7. Assessment of the possibilities of investment plans' execution

The structure of financing property investment expenses will remain compliant with the adopted Strategy, i.e. they will be financed from equity and the debt held (bonds and loan). 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.

Under its Programme Agreement of 23 September 2013 with PEKAO S.A. relating to the Bond Issue Programme for up to PLN 300,000,000, the Company issued bonds with the total value of PLN 300,000,000, i.e. the full value available under the Programme.

Under its Programme Agreement of 30 June 2014 with Bank Polska Kasa Opieki S.A. and Bank Gospodarstwa Krajowego, relating to the Bond Issue Programme for up to PLN 600,000,000, the Company issued bonds with the total value of PLN 400,000,000. The outstanding bonds to be issued under the agreement amount to PLN 200,000,000.

Moreover, the Company has a revolving credit facility in PLN for the maximum amount of PLN 150,000,000. As at 30 June 2015, the amount drawn down on the facility was PLN 57,762,000.

The loan together with issued bonds (totalling PLN 776,764,000), disclosed in the Group's statement of financial position as at 30 June 2015, accounted for 31.29% of its equity and 18.14% of the balance-sheet total.

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

Due to the change of situation on the market and revision of production and sales plans, the investment programme for 2015 has been updated and amounts currently to nearly 200 million less than assumed at the beginning of the year.

During the second quarter of 2015, the LW BOGDANKA Group continued investment works according to the adopted plan.

On account of implementation of investments in the first half of 2015, the Company made outlays on non-current assets under construction for a total amount for the Group equal to PLN 161,576,000 including PLN 153,198,000 in the Parent.

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

Specification	Plan for 2015	Plan update as at 2015	Implementation in H1 2015	Implementation of the Plan [%]	Change to the Plan
Acquisition of new licenses*	49,972	44,969	1,440	3.2%	-5,003
Maintenance of machinery	100,090	42,633	24,554	57.6%	-57,457
Other development and replacement projects	99,878	72,504	29,387	40.5%	-27,374
Purchase and assembly of longwall systems	1,750	3,087	3,047	98.7%	1,337
New workings and upgrade of existing ones	309,112	198,196	94,770	47.8%	-110,916
TOTAL CAPEX AT LW BOGDANKA**	560,802	361,389	153,198	42.4%	-199,413
ŁĘCZYŃSKA ENERGETYKA AND OTHER SUBSIDIARIES	19,897	19,897	8,378	42.1%	0
TOTAL CAPEX AT THE LW BOGDANKA GROUP	580,699	381,286	161,576	42.4%	-199,413

* The plan for 2015 takes into account full payment for use of geological information, which is paid in instalments over a longer period of time. The full value of geological information is equal to PLN 27,988,733. According to the plan, in 2015, a payment will be made that will be due immediately after the contract for use of geological information is signed, i.e. 10% of the value of the contract. The remaining part will be paid in ten yearly instalments, payable starting from the year in which the Company will obtain the mining license.

** The total investment outlays do not include capitalized costs of external financing.

The plan for H1 2015 included groups of tasks: development investments, including the purchase of machines and equipment, and operational investments, including construction and upgrade of workings in the Bogdanka, Nadrybie, and Stefanów Fields, as well as upgrades and repairs of machines and equipment, etc.

Acquisition of new licenses

The Company has acquired licences for mining in the K-3 area and for prospecting of the "Ostrów" deposit. The OS-1 test hole was drilled in the "Ostrów" area and the geological documentation for this hole was prepared. A project of drilling works was developed for the OS-4 whole which is the last whole provided for in the licence for prospecting.

Maintenance of machinery

Purchase and assembly of new machines and equipment to be assembled - by the end of the first half, machines and equipment had been purchased and assembled that were worth a total of PLN 13,073,000 including the cost of assembly. The most important machines and equipment are overhead diesel locomotives, track diesel locomotives, shunter units, ventilation stopping, scraper conveyor, equipment for drawing off and disassembly of gallery lining, a drilling-anchoring carrier, and a pump unit assembly.

Purchase of finished goods - the value of the finished goods that were purchased was equal to PLN 7,344,000. The most important finished goods that were purchased were: finished transport equipment (hoists, a track bulldozer, transportation truck), pumps and hydraulic units, electrical equipment (transformer stations, cable testers, a power generator), other finished equipment (fans, equipment for drilling holes in the plough face, guillotine shears for rods, tools considered as property, plant and equipment, bolting machines, purchase of computer and network equipment with software).

Other development and replacement projects

Central air conditioning for the Bogdanka field - installation of the cooling system, including installation of specialized equipment.

The initial investment agreement was terminated for reasons attributable to the contractor, i.e. the Wonam Group. In July 2015, a new agreement for continuation of the works was signed with Łęczyńska Energetyka Sp. z o. o. Łęczyńska Energetyka Sp. z o.o. has the qualifications necessary to complete the investment. The hand-over of the works to the subsidiary will allow LW BOGDANKA to exercise better control over the contractor and agreement execution.

Enlargement of the mining waste neutralization facility in Bogdanka - an annex to the designs is being prepared that increases the surface of phase II of Stage I by adding the plot of land no. 289/5 that was purchased. At the same time, a dendrological study report was prepared based on which the clearing of trees on the aforementioned plot of land will be performed.

Acquisition of plots located in the area of the surface of Stage II and Stage III is continued.

Other operational investments: Enlargement of the power supply networks and upgrade of the switching station and the 110/6 kV station were continued. The 110/6 kV main transformer and distribution station in Bogdanka was completed. The design of shaft 1.5 is completed.

Purchase and assembly of longwall systems

The key investment was the purchase and installation of plough system 4 for wall no. 1/I/385 which enables 318 m long mining walls to be exploited. In May, the installation was finished and the efficiency tests are carried out.

New workings and upgrade of existing ones

Table 24 The value of investment outlays on the workings in the first half of 2015.

Workings and works - total	Depreciation method	Length [m]	Value of the coal from the workings [PLN '000]	Full value of the investment outlays [PLN '000]	Value of the investment outlays [PLN '000]
Wall workings	natural	8,854.8	32,897	127,667	94,770
Basic workings	linear	729.2			
Reconstructions	linear/natural	1,045.6			

The total length of the gallery workings that were built in the period of six months of 2015 was equal to 10,155 m, including investment workings of 9,584 m. Reconstruction of workings was performed in accordance with the adopted schedules. The total expenditures on reconstruction of gallery workings in that period were equal to PLN 22,615,000. The total expenditures on new workings and upgrades of existing ones were equal to PLN 72,155,000.

5. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP

The information on the Company's existing Strategy for 2013-2020, the extent to which it was implemented, as well as reasons why it needs to be revised were presented in a greater detail in the Directors' Report on Operations for 2014. Below are the pillars of the revised Strategy which is being developed.

As the situation in the coal market in Poland remains unclear, the Company has postponed its decision on the directions for the Company's long-term Strategy. However, measures are implemented on an ongoing basis to help the Company adapt to the difficult market situation today. The principal objectives of the revised Strategy as announced in June 2015 are still valid and described below:

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 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 a dramatically limited free marked of coal sales;
- 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 programme 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 the 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.

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.

In 2015, in connection with forecasts expecting further pressure on global coal prices and oversupply on the Polish market caused by aggressive price policy of the state subsidised KW S.A., LW BOGDANKA adopted for implementation a "conservative scenario".

LW BOGDANKA assumed as the key objective in 2015 to "secure cash" through significant savings in costs and investment plans, based on three basic elements:

- optimisation of production plan to approx. 8.5 million tonnes
- significant reduction of "permanent" employment (by 400 people) and outsourced services
- limiting capital expenditure (the LWB Group) to approx. PLN 380 million

In the event of the adverse market situation continues, the Company intends to implement the 2nd stage of restructuring programme providing for:

1. modification of production plan providing for reduction of fixed costs on the basis of the production plan on the level of 8-8.5 million tonnes between 2016 and 2020 through, among other factors:
    - reduction of average number of walls from 6 in 2014 to 4 in 2017;
    - reduction of the number of production units from 6 to 4, and
    - reduction of the number of preparatory units from 5 to 3;

2. Further progressive reduction of permanent headcount, resulting from the above assumptions, to the optimum level from the perspective of the planned production;

3. Flexible use of agreements for outsourced services resulting from day-to-day needs;

4. Maintaining cost flexibility thanks to the possibility to regulate production through work on Saturdays:
    - addition of work on Saturdays allows the production to be regulated at a level of 1-1.5 million tonnes per year compared to production conducted during a 5-day work week;

5. Modification of wall mix providing for an increase in production from cutting machine walls compared to low ploughing walls:
   - If possible, providing access to new deposits (Ostrów) from the current infrastructure allowing the production to be conducted from high and "clean seams" – following obtaining the mining licence (2018);

6. Further limitations in capital expenditure:
   - capex limited to necessary minimum in order to maintain operation of the mining plant, bearing in mind the implemented investment programme (2 x 2 programme);
   - reduction of the average annual plan from PLN 600 million (Strategy 2013) to PLN 360 million in the period 2016-2020 (LWB);
   - reduction of preparatory works (new workings) translates into a decrease both in costs by type and capitalised costs (including materials, power, outsourced services, employee costs).

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 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.

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

The LW BOGDANKA Group did not publish forecasts for financial results in 2015.

7. RISK FACTORS AND THREATS AS WELL AS FACTORS WHICH, IN THE ASSESSMENT OF LW BOGDANKA S.A., WILL AFFECT THE RESULTS ACHIEVED

7.1. Integrated system of enterprise risk management

The key objective of the management of LW BOGDANKA S.A.'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 S.A. introduced the Integrated System of Enterprise Risk Management (ERM).

In 2012, an IT (Risk Manager) system was implemented to support the enterprise risk management system, and the basic documents setting out the rules of system functioning, such as policies, procedures, risk register and risk valuation principles, were modified to adapt them to the implemented software.

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. Programmes 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 25 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 – Risk of business partners bankruptcies
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

7.2. 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 S.A. In case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Group may deteriorate.

However, owing to long-term sales agreements which oblige the purchasers to buy a specified volume of power coal, the risk of the Parent's financial results deteriorating significantly is low. 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.

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

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA 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. 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. According to media reports, the KWK Brzeszcze coal mine is to be taken over by Tauron Polska Energia. However, if the coal mine does not change hands by September 2015 in accordance with the agreement of 17 January 2015, the Coal Mine Restructuring Company will make KWK Brzeszcze part of Nowa Kompania Węglowa. There are also problems concerning the Makoszowy coal mine, which was initially to be taken over by Węglokoks. However, Węglokoks is trying to get out of the project now.

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 Polish government's Programme for Silesia involves the establishment of a Polish Enterprise Investment Fund. by Bank Gospodarstwa Krajowego and PIR (Polskie Inwestycje Rozwojowe – Polish Investments for Development). According to the programme, the fund would be established for 15 years. In June 2015, Bank Gospodarstwa Krajowego signed an agreement to set up four funds to be managed by Polskie Inwestycje Rozwojowe (Polish Investments for Development). One of the funds is the aforementioned Polish Enterprise Investment Fund. Initially, the fund will have a budget of PLN 1,500,000,000 to spend.

Nowa Kompania Węglowa is expected to be set up by the end of August 2015. However, it is not certain whether this deadline will be met, as the process of finding investors to join the project is still underway.

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.

The Management Board of LW BOGDANKA undertakes activity aimed at intervention against unfair market practices applied by entities subsidised by the state (price dumping). The following actions were taken in this respect:

Communication with the Office of Competition and Consumer Protection indicating that some entities address their offer for supply of coal significantly below the costs of production.

- KW S.A. is able to sell below the costs of production because it waits for the "subsidy to coal prices" which should be thus treated as state aid;
- also the deferral of tax arrears or outstanding ZUS contributions are considered state aid, as well as other forms of unsanctioned aid from the state, unless such aid does not meet specified criteria;
- the relevant market, both in terms of geography and product, is the Polish market of fine coals, on which KW S.A. is the leader;

Letter to the EU Commission concerning illegal subsidising of entities owned by the State Treasury indicating such factors as:

- inconsistency between the state aid and the objective specified in the Council Decision;
- discrepancy between the state aid and the schedule specified in the Council Decision;
- discrepancy between the amount of state aid and the limit agreed in the Council Decision;
- unfounded omission of claiming public levies;
- abuse of dominant position and illegal support to coal sale prices.

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 prices of coal and energy on global and domestic markets, and thus the Company's financial results, may be affected by:

- Decreases in coal prices on the global market,
- Increases in unsold coal inventories faced by both global and domestic producers due to a decrease in demand for coal,
- Decreases in the crude oil prices,
- Lifting sanctions from Iran – if Iran respects the nuclear agreement signed in July this year, the sanctions imposed on Iran may be lifted, including embargo on exports of natural gas and crude oil;
- Economic and political situation in the Ukraine.

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 7.2. 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 as well as combined 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 S.A. 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 as well as combined 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 and bonds issued, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in finance costs of the 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).

The Company's Management Board monitors the trends in interest rates and considers the possibilities of securing the risk of change to interest rates by using derivative transactions, e.g. IRS.

Risk associated with changes in exchange rates

In February 2014, the Company concluded an agreement which indicated EUR as the applicable currency. Security was established in respect of the EUR 39.75 million agreement, which provided for the delivery and assembly of a ploughing system for low seam mining. To this end, the Company concluded two forward transactions on 24 March 2014, with the value date falling in the first quarter of 2015. Both transactions were settled with the bank through physical delivery of the currency. Total value of the security established is EUR 27.83 million. The amount of EUR 23.85 million was repaid by the end of the first half of 2015. The remaining amount to be paid is EUR 3.98 million.

At present, the Company does not have commercial contracts settled in currencies that would expose it to the risk of changes to exchange rates. The Company is able to secure changes to exchange rates by using derivative transactions such as forward transactions.

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

The LW BOGDANKA Group does not see any threats to the possibility of obtaining further debt financing. Moreover, in connection with the loan agreements in force, as well as the Bond Issue Programme, the Company is able to satisfy its needs with respect to debt financing without the necessity for any further loan agreements.

The current interest-bearing debt (loan and the issued bonds of the total value of PLN 776,718,000) as at 30 June 2015 accounted for 31.29% of Company's equity and 18.14% 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 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 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 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 the Group is relatively small, since extraction is performed under little urbanised area. The safety level of the operating conditions in the 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 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 Company is actively involved in consultations conducted by the Polish mining sector in order to minimise the above risk for domestic coal producers.

The LW BOGDANKA 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. 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. In order to mitigate the potential risk, the Company addresses its offer also to small and medium customers such as heat plants, cement plants and other industrial plants as well as to retail customers.

A mild winter and a hot summer, when failures of the power plant cooling systems are observed, 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, as well as in the Silesian mines which since the beginning of the year sell fine coal below the production costs. 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 2018, 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. Until the end of 2014 the Company implemented its investment programme which brought about a growth in the extracting capacity of the mine up to approx. 11.5 million tonnes of coal per year. The incurred capital expenditure, together with a lack of full economic effects given a significant deterioration of the situation on the coal market, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

The ongoing difficult market situation has significantly affected LW BOGDANKA's share price, which fell by 38% in the last calendar quarter. In the present situation, there is a risk of acquisition of a majority stake in LW BOGDANKA and getting control over the Company.

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.

7.3. Factors directly associated with the Company'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. At the moment the Company 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 the Group's mining area. Consequently, these entities may in the near future apply for mining licences. The Group holds a competitive advantage over prospective rivals in the form of extensive technical infrastructure necessary to conduct its operations, as well as unique know-how related to coal extraction in the mining and geological conditions of the Lublin Coal Basin deposit.

In June 2014 the Group 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 the Group 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 Group 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 Company uses advanced mining equipment and machines in its mining operations. The Company 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.

In response to the market developments in the first half of 2015, manifested in lower sales of coal, the measures are underway to adapt the Company to the new circumstances. The number of active longwalls and galleries in the drilling processes is being reduced, and attempts are being made to define the mining profitability limits under the market conditions in terms of deposit thickness, sulphur content etc.

Risk associated with high costs of technologies applied by the Company

The technology of power coal extraction applied by the Group 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 Group'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 Company systematically takes actions aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

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

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.

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 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.

In 2016, an additional risk will emerge. More specifically, the Company's long-term agreements with PGNiG S.A and Energa Elektrownie Ostrołęka S.A will expire. Once the agreements expire, the two customers will be able to reduce their volume requirements without having to pay the liquidated damages provided in the agreements for in case of such events.

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 7.2. 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 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 programme;
- 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.

The difficult financial situation faced by Kompania Węglowa S.A. (with a net loss of PLN 746,700,000 for the first half of 2015), plus the fact that the company is directly or indirectly subsidised by the Polish government, is causing disruptions in the free market as a result of the dumping policy pursued in Poland by the group's parent, KW S.A. The fact that Kompania Węglowa S.A.'s is offering coal to LW BOGDANKA S.A.'s customers at prices far below the costs of production is putting the Company in a position where its price-based competition capacity is affected. If these risk factors are eliminated, this risk will be reduced significantly, as the LW BOGDANKA S.A.'s coal extraction unit cost is the lowest in the industry.

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.

Customer insolvency risk

Customer insolvency risk is associated with general level of current receivables of the LW BOGDANKA Group payable by its customers and the surplus of Group's receivables in comparison to liabilities. As at 30 June 2015, trade debtors and other current accounts receivable of the Company accounted for 5.4% of the carrying value and 27.6% of the Company's revenue on sales. The share of trade debtors in trade debtors and other total current accounts receivable accounted for 78.1%.

In order to protect against the risk of potential insolvency of its customers, the Group 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 Group has cooperated on the basis of long-term commercial contracts, as regards the delivery of power coal, with the main Polish energy-related groups, heat and power plants, heating plants and industrial enterprises.

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. 65.76% of the employees (in LW there are four trade union organisations, associating 70.19% 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.

On 4 August 2015, the Company ended a collective dispute in which the Management Board was engaged since 8 June 2015 together with all the trade unions operating at the Company.

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

The LW BOGDANKA Group's demand for human resources results from the strategy. Until the end of 2015 the headcount will be decreased in order to adjust it to the current needs in individual professional groups.

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.

Risk of business partners going bankrupt

Financial problems of the mining sector are increasingly influencing companies with connections with the mining. Payment backlogs and problems with securing the financing cause difficulties in the day-to-day operations of the partners, which may lead to bankruptcies. The following measures are taken in order to minimise the probability of this risk occurring, and reduce the impact of the risk:

- permanent market monitoring and acquiring new suppliers;
- periodic analysis of contracts and researching market trends;
- searching for replacement products.

7.4. 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 30 June 2015 amounted to PLN 222,536,000. The current liquidity ratio for the Group amounted to 1.08, and quick liquidity ratio – 0.83. In the first half of 2015 net flows from operating activities generated by the LW BOGDANKA Group were higher by 6.5% compared to those of the previous year. Therefore, 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 Company obtained debt financing in the form of an overdraft credit facility and a bond issue programme.

Insurance risk

The Group is exposed to insurance risk both within standard scope applicable to all entities conducting business activity, and (with respect to the Parent) 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. In addition, the Parent maintains a partial business interruption policy that pays, to a limited extent, for the fixed costs incurred in the event of damage.

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. As at the end of the first half of 2015, the Parent established a business relationship with a reputable broker. At present, the Group is in the process of carrying out an insurance review. Once completed, it will be the basis of a revision of the Group's insurance programme currently in place. This is expected to prepare the Group for renewing its major insurance policies that are due to expire at the end of 2015 and in the first quarter of 2016.

7.5. Risks associated with environmental protection

Risk associated with reclamation and mining damage

LW BOGDANKA is obliged to carry out reclamation of the post-mining land and remove mining damage. The existing standards of reclamation and mining damage removal may change in the future. It seems that given the current trends in environmental protection one may expect that the requirements regarding the post-mining land reclamation and mining damage removal will be 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 (including the purchase of developed real properties). Therefore, in addition to the existing recovery work, the Company will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results.

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 LW BOGDANKA 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 operations are conducted in compliance with law and BAT requirements. The Company 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 LW BOGDANKA. 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.

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

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 adverse factors connected with the investment process (including necessary arrangements to be made with the self-government and difficulties related to the purchase of land), 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 third-party 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.

7.6. 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 with related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

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 Parent believes such risk to be largely limited.

Risk of real estate tax on mining excavations of LW BOGDANKA

In accordance with the Group'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, 2014 and in the first half of 2015, fiscal proceedings were pending against the Company in order to determine the amount of real property tax due for the period between 2004 and 2014, 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 2008-2014, as well as in the decision of the Head of Cyców Commune following further recognition of the case regarding the real property tax for 2006, 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 as well as the position of the Provincial Administrative Court in Lublin expressed in rulings concerning the real property tax for 2008-2012 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 and second instance and by the Provincial Administrative Court in Lublin regarding the real property tax liabilities for 2008-2012 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 initial decisions of Heads of Puchaczów, Cyców and Ludwin Communes concerning the real property tax for the period between 2004 and 2007, where the value of the entire mining excavations, including the equipment installed there, as recorded in the register of fixed assets, was taken as the taxable amount by the authorities of first instance used.

Moreover, in addition to the pending proceedings relating to the real property tax for 2004 (Puchaczów and Cyców) and for 2006 (Cyców and Ludwin), the Company may enjoy favourable decisions, as it is possible that these proceedings will be discontinued on the grounds that the statutory period for the authorities to require tax payments has expired. This possibility is linked with the court orders entered by the Provincial Administrative Court in Lublin in cases concerning real property tax payments for 2004 (Puchaczów, Cyców) and for 2006 (Cyców). In these orders, the Lublin court referred to the Supreme Administrative Court's opinion expressed in the Seven Judges Resolution of 28 April 2014 in case I FPS 8/13 and quashed the decision made by the Local Government Appellate Court in Lublin.

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. 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 or if the Mining Law introduces new requirements to be imposed on the Parent, it could lead to deterioration of its financial situation and as a result negatively affect the Company's bottom line and the 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 Parent's Directors believe such risk to be largely limited.

Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Company is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Company'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 S.A. and by permanent monitoring of the Company's activity from the perspective of disclosure requirements.

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

As of the date of preparing the Directors' Report on Operations of the LW BOGDANKA Group for the first half of 2015, LW BOGDANKA S.A. has not been a party in any proceedings pending before a court, the relevant authority for arbitration proceedings or a public administration authority, concerning:

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

9. RELATED PARTY TRANSACTIONS

During the first half of 2015, neither the Parent nor its subsidiaries concluded any significant transactions with related entities which were individually or jointly significant and concluded on terms other than on an arm's length basis. Information about transactions of LW BOGDANKA S.A. with related entities is contained in Note 24 of the Condensed Interim Financial Statements of LW BOGDANKA S.A. for the six months ended on 30 June 2015.

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

In the period from 1 January 2015 to 30 June 2015, neither LW BOGDANKA S.A. nor its subsidiaries granted sureties for a credit facility or loan, nor did they grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's equity.

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

11.1. Adopting resolution on payment of dividend at LW BOGDANKA S.A.

On 18 June 2015, the Annual General Shareholders Meeting adopted a resolution on distribution of net profit for 2014.

It was decided to distribute the net profit generated by the Company in 2014 amounting to PLN 272,942,404.07 (two hundred and seventy-two million nine hundred and forty-two thousand four hundred and four zlotys 07/100) as follows:

1. allocate PLN 119,047,565.00 (one hundred and nineteen million forty-seven thousand five hundred and sixty-five zlotys) for a dividend, i.e. PLN 3.50 (three zlotys 50/100) per share.
2. allocate the remaining amount, i.e. PLN 153,894,839.07 (one hundred and fifty-three million eight hundred and ninety-four thousand eight hundred and thirty-nine zlotys 07/100) for the Company's reserve capital.

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

Further, the General Shareholders Meeting scheduled the dividend date for 17 September 2015, and the dividend payment date for 8 October 2015.

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

The Company published this information in Current Report No. 14/2015 of 18 June 2015.

11.2. Appointment of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.

On 18 June 2015 the Management Board of Lubelski Węgiel BOGDANKA S.A. as a result of adopted resolutions, appointed the following persons to the Supervisory Board for the three-year term of office:

- Mr Robert Bednarski;
- Mr Witold Daniłowicz;
- Mr Raimondo Eggink;
- Mr Dariusz Formela;
- Mr Eryk Karski;
- Mr Stefan Kawalec;
- Mr Tomasz Mosiek;
- Mr Michał Stopyra.

According to the submitted declarations, the new members of the Supervisory Board are not involved in any activity competing with the Company. They are not shareholders in any partnership competing with the Company, they do not hold positions in corporate bodies of any company competing with the Company, and they are not members of corporate bodies of any legal persons competing with the Company. They are not entered into the Register of Insolvent Debtors maintained under the Act on the National Court Register of 20 August 1997 (Dz. U. of 2007, No. 168, item 1186).

The biographies of the appointed members of the Supervisory Board are attached to Current Report No. 15/2015 of 18 June 2015.

The Company published this information in Current Report No. 15/2015 of 18 June 2015.

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

The Management Board of Lubelski Węgiel BOGDANKA S.A. with registered office in Bogdanka announced that on 18 June 2015 the Annual General Shareholders Meeting of the Company adopted Resolutions No. 22-23 amending the Articles of Association of Lubelski Węgiel BOGDANKA S.A. The existing provisions of the Articles of Association of LW BOGDANKA S.A. and the amendments introduced were presented in an appendix to Current Report No. 17/2015 of 19 June 2015.

On 12 August 2015 the Management Board of LW BOGDANKA S.A. announced that amendments to the Articles of Association were registered by the Court and the consolidated text of the Articles of Association was adopted.

The Company published this information in Current Report No. 23/2015 of 12 August 2015.

11.4. Appointment of a chartered auditor

The Management Board of LW BOGDANKA S.A. announced that on 26 June 2015, the Company's Supervisory Board adopted a resolution on appointing Deloitte Polska Sp. z o.o. Sp. k. with registered office in Warsaw, as an entity authorised to:

- review the Company's financial statements and the Group's consolidated financial statements for the first halves of 2015, 2016 and 2017 in accordance with the IFRS,

- conducting an audit of the Company's financial statements and the Group's consolidated financial statements for 2015, 2016 and 2017 in accordance with the IFRS.

The agreement will be concluded for a period enabling the subject matter of the agreement to be performed.

The Company has already used the services of Deloitte Audyt Sp. z o.o. (currently Deloitte Polska Sp. z o.o. Sp. k.) with regard to the following services:

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

- conducting an audit of the Company's financial statements and the Group's consolidated financial statements for 2012, 2013 and 2014.

Deloitte Polska Sp. z o.o. Sp. k. has been entered since 7 February 1995 into the list of entities authorised to audit financial statements, maintained by the National Chamber of Chartered Auditors under entry number 73.

The Company's Supervisory Board appointed the chartered auditor pursuant to Article 32.1.4 of the Company's Articles of Association. The appointment complied with the binding provisions and professional standards.

The Company published this information in Current Report No. 20/2015 of 26 June 2015.

11.5. Acquisition of Bonds by Banks under a Bond Issue Programme

On 30 June 2015 the Management Board of LW BOGDANKA S.A. announced 30 June 2015 was a maturity date for two series of bonds: LWB01A300615 and LWB02A300615 in aggregate amounting to PLN 400,000,000, issued on 1 August 2014 (the issue was announced by the Company in Current Report No. 15/2014 of 1 August 2014) under a Bond Issue Programme ("Programme") established on the basis of the agreement with Bank Polska Kasa Opieki Spółka Akcyjna and Bank Gospodarstwa Krajowego (collectively "Guarantors") announced by the Company in Current Report No. 13/2014 of 30 June 2014.

In accordance with the Bond Issue Programme rules, the Company may, during the period of the programme, issue successive bond series as part of tranches, with the proceeds to be used to refinance the previous bond issues as part of the programme (rollover). Consequently, for the purpose of refinancing its LWB01A300615 and LWB02A300615 bond series, on 30 June 2015 the Company issued a total of 300 registered bonds identified as the LWB01B300616 as part of Tranche 1 with the par value of PLN 1,000,000 (one million zlotys) each and a total of 100 registered bonds identified as the LWB02B300616 series as part of Tranche 2 with the par value of PLN 1,000,000 (one million zlotys) each. These bonds were acquired by the Guarantors. The total par value of the bonds acquired by the Guarantors is PLN 400,000,000.

The maturity date for the bonds series LWB01B300616 and the bonds series LWB02B300616 is 30 June 2016.

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

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

The value of financial liabilities disclosed in the consolidated financial statements of the Group as at 31 March 2015 amounts to PLN 853,979,000.

The Company published this information in Current Report No. 21/2015 of 30 June 2015.

11.6. Conclusion of significant agreements

Conclusion of an Annex to the Annual Agreement with ENEA Wytwarzanie Sp. z o.o.

On 25 March 2015 the Management Board of LW BOGDANKA concluded an Annex to the Annual Agreement for the supply of power coal in 2015, attached as Appendix 6 to the Long-Term Agreement, with ENEA Wytwarzanie Sp. z o.o. with registered office in Świerże Górne, 26-900 Kozienice.

The Long-Term Agreement was referred to in Current Reports Nos. 5/2010 of 5 March 2010, 44/2010 of 20 December 2010, 31/2011 of 27 December 2011, 3/2013 of 15 January 2013, 9/2013 of 29 March 2013 and 3/2014 of 15 January 2014.

The Annex specifies prices of coal supply for 2015 covered by the Annual Agreement which is in effect from 1 January 2015 to 31 December 2015 and concerns basic coal supplies in 2015 for the ENEA Wytwarzanie Sp. z o.o. (power plant) in Kozienice, in compliance with the Long-Term Agreement.

As a result of concluding the Annex, the value of the Annual Agreement for 2015 which is in effect from 1 January 2015 to 31 December 2015 and concerns the terms and conditions of coal supplies in 2015 for the ENEA Wytwarzanie Sp. z o.o. in Kozienice, amounts currently to PLN 766 million (i.e. by 0.9% less than the amount indicated in report no. 3/2014).

As a result of concluding the Annex, the value of the entire Long-Term Agreement, valid from 2011 to 2025, currently amounts to approx. PLN 10,603 million net (i.e. by 0.69% less than the value indicated in report No. 3/2014).

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

The criterion for deeming the Agreement material is that it exceeds 10% of the value of the Company shareholders equity.

This was announced by the Company in Current Report No. 2/2015 of 25 March 2015.

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

On 22 June 2015, the Management Board of LW BOGDANKA S.A. concluded an Annex to the Agreement on Sale/Purchase of Power Coal with PGNIG Termika S.A. with registered office in Warsaw, 03-216 Warsaw ul. Modlińska 15. The Agreement concerns coal supplies provided by the Company in 2013-2015 for the purposes of, among others, Żerań Heat and Power Station and Siekierki Heat and Power Station, both owned by PGNIG Termika S.A.

The Agreement was referred to in Current Reports Nos. 13/2012 of 23 April 2012, 13/2013 of 29 April 2013, 14/2013 of 28 May 2013, 28/2013 of 5 July 2013, 6/2014 of 24 April 2014, 14/2014 of 31 July 2014, 17/2014 of 25 September 2014, and 19/2014 of 14 November 2014.

The Annex applied to supplies performed in 2015.

As a result of concluding the Annex, the value of the entire Agreement amounts currently to PLN 805.3 million, which represents a decrease of 15.1% compared to the value specified in Current Report No. 19/2014 of 14 November 2014.

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

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

The annex does not change the production assumptions announced in Current Report No. 9/2015 of 10 June 2015 at a level of 8.5 million tonnes.

This was announced by the Company in Current Report No. 18/2015 of 22 June 2015.

11.7 Employment in LW BOGDANKA S.A.

Employment at the Group as at 30 June 2014, 31 March 2015 and 30 June 2015 is presented in the table below:

Table 26 Employment at the LW BOGDANKA Group as at 30 June 2014, 31 March 2015 and 30 June 2015

Employment	30 Jun. 2014	31 Mar. 2015	30 Jun. 2015	Dynamics H1 2015/ H1 2014 [%]	Dynamics H1 2015/ Q1 2015 [%]
Total workers	4,260	4,221	4,077	-4.3%	-3.4%
Underground workers	3,308	3,245	3,109	-6.0%	-4.2%
Surface workers	952	976	968	1.7%	-0.8%
Full-time employees underground	353	342	319	-9.6%	-6.7%
Full-time employees on the surface	307	318	324	5.5%	1.9%
Total underground	3,661	3,587	3,428	-6.4%	-4.4%
Total LW Bogdanka	**4,920**	**4,881**	**4,720**	**-4.1%**	**-3.3%**
Total RG Bogdanka	**566**	**471**	**383**	**-32.3%**	**-18.7%**
Total MR Bogdanka	**37**	**226**	**215**	**481.1%**	**-4.9%**
Total EkoTrans Bogdanka	**2**	**2**	**2**	**0.0%**	**0.0%**
Total Łęczyńska Energetyka	**115**	**113**	**107**	**-7.0%**	**-5.3%**
Total LWB Group staff	**5,640**	**5,693**	**5,427**	**-3.8%**	**-4.7%**

In the second quarter of 2015, employment at the Group decreased by 266 people, i.e. by 4.7% compared to the level of employment at the end of the first quarter of 2015. Employment in the second quarter of 2015 decreased by 213 people, i.e. by 3.8% compared to the level of employment at the end of the second quarter of 2014. The decrease in employment results from the necessity to adjust the manpower to the current production needs of the Company.

LW BOGDANKA S.A. employed 16 new employees in the first quarter of 2015, and 4 employees in the second quarter, that is 20 people in total. By way of contrast, 65 people in the first quarter of 2015, and 165 people in the second quarter left the Company. In total, in the first half of 2015, 230 employees left the Company (mainly retirements).

12 TABLES

Signatures of Members of the Management Board

Name and surname	Position	Date	Signature
Zbigniew Stopa	President of the Management Board	19 August 2015	
Roger de Bazelaire	Vice-President of the Management Board, Chief Financial Officer	19 August 2015	
Waldemar Bernaciak	Vice-President of the Management Board, Sales and Logistics	19 August 2015	
Krzysztof Szlaga	Vice-President of the Management Board, Procurement and Investments	19 August 2015	

Bogdanka, 19 August 2015