



**DIRECTORS' REPORT ON OPERATIONS  
OF THE LUBELSKI WĘGIEL BOGDANKA CAPITAL GROUP**

**for the first quarter of 2010  
ended on 31 March 2010**

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## **1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA CAPITAL GROUP**

### **1.1 Structure of the Lubelski Węgiel BOGDANKA Capital Group**

As at 31 March 2010, the Lubelski Węgiel BOGDANKA Capital Group (hereinafter referred to as the "Group", "LW BOGDANKA Capital Group", "LW BOGDANKA CG" or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. (hereinafter referred to as "Łęczyńska Energetyka"; "subsidiary undertaking") as the subsidiary undertaking.

The associated undertaking is EKSPERT Sp. z o.o., in whose capital Łęczyńska Energetyka Sp. z o.o. holds 50% of shares.

As at the date of submitting this Report (17 May 2010), LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

### **1.2 Information on the entities of the Lubelski Węgiel BOGDANKA Capital Group subject to consolidation**

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged quarterly consolidated financial statements of the LW BOGDANKA Capital Group for the first quarter of 2010 (the "abridged quarterly consolidated financial statements") by the full consolidation method.

The affiliated company - EKSPERT Sp. z o.o. was included in the quarterly consolidated financial statements of the LW BOGDANKA Capital Group by the equity method.

#### **1.2.1 Information on the parent undertaking of the Lubelski Węgiel BOGDANKA Capital Group**

##### **Parent undertaking of the LW BOGDANKA Capital Group:**

**Lubelski Węgiel BOGDANKA Spółka Akcyjna (hereinafter referred to as "LW BOGDANKA S.A.", the "Company", "Lubelski Węgiel BOGDANKA S.A." or "LW BOGDANKA").**

Address: Bogdanka, 21-013 Puchaczów, Lublin Province

Tel.: (81) 462 51 00, (81) 462 51 01

Fax: (81) 462 51 91

Website: [www.lw.com.pl](http://www.lw.com.pl)

e-mail: [bogdanka@lw.com.pl](mailto:bogdanka@lw.com.pl)

industry identification number (REGON): 430309210

Tax registration number (NIP): 713-000-57-84

##### **Business activities**

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

According to the Company's Articles of Association, the business activities of Lubelski Węgiel BOGDANKA S.A. are:

- a) agriculture, forestry, hunting and fishery (Section A),
- b) mining and production (Section B),
- c) industrial processing (Section C),

- d) production and supply of electricity, gas, steam, hot water and air for air-conditioning installations (Section D),
- e) water supply; liquid and solid waste management; activities related to reclamation (Section E),
- f) construction (Section F),
- g) wholesale, retail sale and repair of motor vehicles, including motorcycles (Section G),
- h) transport and warehouse management (Section H),
- i) activities related to lodging and catering (Section I),
- j) information and communications (Section J),
- k) finance and insurance (Section K),
- l) real estate activities (Section L),
- m) professional, scientific and technical activities (Section M),
- n) administration and support activities (Section N),
- o) education (Section P).

### **Supplementary activities**

The Company's additional production is building materials, mainly in the form of ceramic façade bricks that are manufactured within the frameworks of utilising Carboniferous rock waste stone in the EKOKLINKIER Building Ceramics Plant. In September 2007, its building materials production business was discontinued as a result of a fire at ZCB EKOKLINKIER. From 2008 until September 2009, intensive works were continued in connection with reconstruction of the manufacturing buildings and process line. Production was re-commenced in the fourth quarter of 2009.

### **1.2.2 Information on the subsidiary and affiliated companies**

#### **Direct subsidiary:**

#### **Łęczyńska Energetyka sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów, Lublin Province  
Tel.: (81) 443 11 02, (81) 462 55 53  
Fax: (81) 443 11 01  
Website: [www.lebog.com.pl](http://www.lebog.com.pl)  
e-mail: [biuro@lebog.com.pl](mailto:biuro@lebog.com.pl)  
Industry identification number (REGON): 004164490  
Tax registration number (NIP): 713-020-71-92

Share capital (as at 31 March 2010): PLN 82,677,000, divided into 82,677 shares of PLN 1,000.

Shareholding structure:

- 88.697% LW BOGDANKA S.A.;
- 11.297% Łęczna Municipality;
- 0.006% Puchaczów Municipality.

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

Łęczyńska Energetyka Sp. z o.o. provides services to mines involving supplying heat energy and conducts water/wastewater management.

Łęczyńska Energetyka sp. z o.o. was formed on 28 May 1990.

The Company was registered with the commercial register under entry No. 1823 in section B by the District Court, XI Commercial Division, on 15 June 1990. The Company commenced its business on 1 July 1990 under the name of KOBO Sp. z o.o., taking over the activities of the mine's Power Engineering Department with respect to heat energy production at the boiler facility in Bogdanka as well as transmission and distribution of the energy to recipients in Bogdanka, Nadrybie and Stefanów and to the town of Łęczna.

On 1 June 1992, the Company took over the activities of the Water & Sewerage Management Department.

In 1994-1999, the Company expanded its heat production and distribution business at the local heat power stations in Zawadów, Łęczna and Ostrów Lubelski.

Since 2 January 2000, the Company has been operating the hotel and foodservice business of a holiday centre in Kalnica.

On 1 February 2001, the Łęczna Municipality made an in-kind contribution to the Company in the form of the assets of the former Łęczna Heat Power Plant (ZEZ Łęczna) in exchange for a 23.33% stake in the increased share capital of the Company.

Since 17 April 2001, the company has been operating under the name of Łęczyńska Energetyka sp. z o.o. with registered office in Bogdanka.

Under resolution No. 19 of 7 December 2004, adopted by the Extraordinary Shareholders Meeting, the Company's share capital was increased by PLN 40,000,000 by creating 40,000 new shares with a par value of PLN 1,000 per share. All the shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. 6026/2004) on 9 December 2004 and paid up in full in cash on 16 December 2004.

Under resolution No. 1 of 27 July 2006, adopted by the Extraordinary Shareholders Meeting, the Company's share capital was increased by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. 3148/2006) on 30 August 2006 in return for an in-kind contribution in the form of a perpetual usufruct right in land and fixed assets with the total market value of PLN 2,618,477.00.

The current share of the Company in the subsidiary's share capital is 88.70%.

**Affiliated undertaking:**

**EKSPERT Sp. z o.o.**

Address: Bogdanka, 21-013 Puchaczów, Lublin Province  
Tel.: (81) 462 20 62  
Fax: (81) 462 20 62  
Website: -  
e-mail: wkekspert@wp.pl  
Industry identification number (REGON): 432693862  
Tax registration number (NIP): 505-000-15-99

Share capital (as at 31 March 2010): PLN 50,000.00, divided into 100 shares of PLN 500.

The share of Łęczyńska Energetyka Sp. z o.o. in the share capital and votes at the Shareholders Meeting is 50.00%.

EKSPERT Sp. z o.o.'s business activities involve manufacturing metal constructions and activities involving preparing technical and structural/technological documentation.

### 1.3 Changes in the structure of the Lubelski Węgiel BOGDANKA Capital Group and in organisational and capital affiliations of the parent undertaking with other entities, and the effects of changes in the structure of LW BOGDANKA S.A., including as a result of merging business units, the take over or sale of units of the LW BOGDANKA Capital Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first quarter of 2010 there were no changes in the structure of LW BOGDANKA Capital Group or in the Group's organisational and capital affiliations with other entities. In that period there were also no changes in the structure of the LW BOGDANKA Capital Group due to the merger of business units, the take over or sale of units of the Group, long-term investments or the division, restructuring or discontinuation of activities.

As at the date of submitting this Report, no changes have occurred in the LW BOGDANKA Capital Group.

## 2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN Q1 THE FIRST QUARTER OF 2010

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

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 22 March 2010

Shareholder	Number of shares	Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	5,553,113	5,553,113	16.33%
The State Treasury*	4,707,931	4,707,931	13.84%
ING Otwarty Fundusz Emerytalny S.A. ***	4,424,833	4,424,833	13.01%
Powszechne Towarzystwo Emerytalne PZU S.A.****	3,320,377	3,320,377	9.76%
Other	16,007,336	16,007,336	47.06%
<b>Total</b>	<b>34,013,590</b>	<b>34,013,590</b>	<b>100.00%</b>

\*According to the Notification received on 16 March 2010, described in Current Report of LW BOGDANKA S.A. No. 8/2010 of 16 March 2010;

\*\*According to the Notification received on 17 March 2010, described in Current Report of LW BOGDANKA S.A. No. 9/2010 of 17 March 2010;

\*\*\*According to the Notification received on 15 March 2010, described in Current Report of LW BOGDANKA S.A. No. 7/2010 of 18 March 2010;

\*\*\*\*According to the Notification received on 18 March 2010, described in Current Report of LW BOGDANKA S.A. No. 10/2010 of 15 March 2010;

On 9 March 2010 the State Treasury sold 15,882,000 shares of the Company on the Warsaw Stock Exchange to Open-End Pension Funds. As a result of the concluded transaction and commencing the process of signing agreements on free of charge acquisition of shares by the eligible employees, the State Treasury held 9.88 of the share capital of LW BOGDANKA S.A. as at the date of submitting the Report (i.e. 17 May 2010). Therefore, it ceased to hold a majority stake in the Company's share capital.

Table 2 The shareholding structure of LW BOGDANKA S.A. as at 17 May 2010

Shareholder	Number of shares	Number of votes at the GSM	Share in the share capital (%)
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	5,014,644	5,014,644	14.74%
The State Treasury*	3,360,796	3,360,796	9.88%
ING Otwarty Fundusz Emerytalny S.A. ***	4,424,833	4,424,833	13.01%
Powszechne Towarzystwo Emerytalne PZU S.A.****	3,320,377	3,320,377	9.76%
Amplico Powszechne Towarzystwo Emerytalne Spółka Akcyjna*****	1,734,194	1,734,194	5.10%
Other	16,158,746	16,158,746	47.51%
<b>Total</b>	<b>34,013,590</b>	<b>34,013,590</b>	<b>100.00%</b>

\*According to the Notification received on 28 April 2010, described in Current Report of LW BOGDANKA S.A. No. 15/2010 of 21 April 2010;

\*\*According to the Notification received on 25 March 2010, described in Current Report of LW BOGDANKA S.A. No. 11/2010 of 25 March 2010;

\*\*\*According to the Notification received on 15 March 2010, described in Current Report of LW BOGDANKA S.A. No. 7/2010 of 15 March 2010;

\*\*\*\*According to the Notification received on 18 March 2010, described in Current Report of LW BOGDANKA S.A. No. 10/2010 of 18 March 2010;

\*\*\*\*\*According to the Notification received on 12 May 2010, described in Current Report of LW BOGDANKA S.A. No. 17/2010 of 12 May 2010;

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

Table 3 Number of the Company's shares held by the members of the Management Board and the Supervisory Boards of LW BOGDANKA S.A.

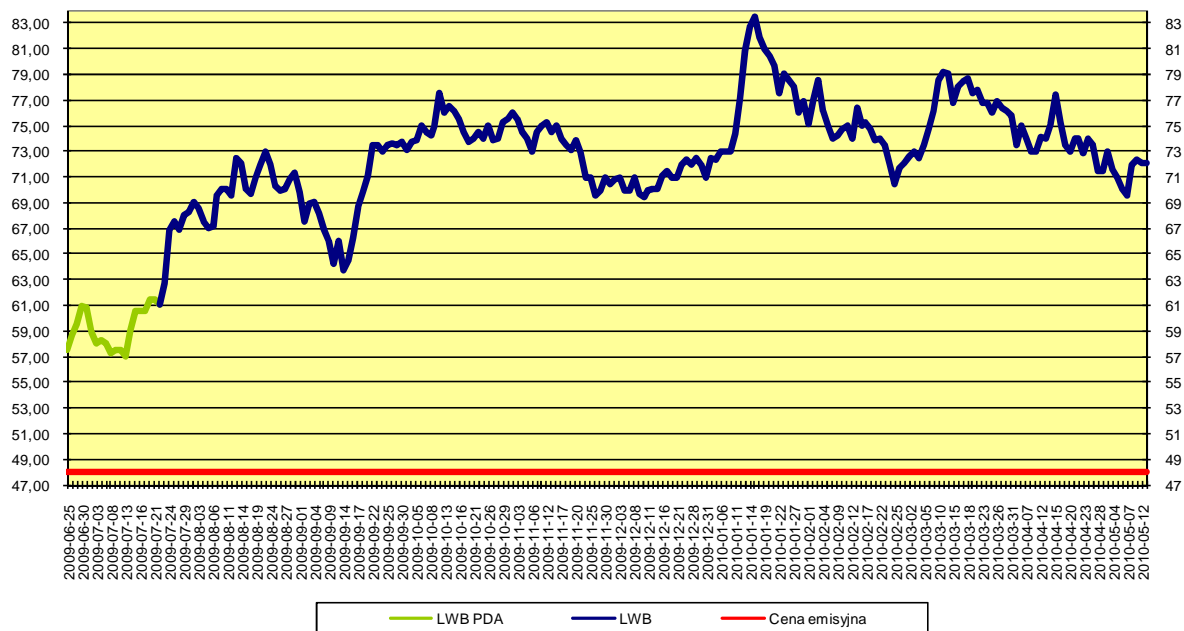
Name and surname	The number of the Company's shares as of 22 March 2010	Free of charge acquisition*	The number of the Company's shares as of 17 May 2010
<b>Management Board</b>			
Mirosław Taras	1,713	1,024	2,737
Krystyna Borkowska	1,299	0	1,299
Zbigniew Stopa	2,810	1,024	3,834
Waldemar Bernaciak	2,162	0	2,162
Janusz Chmielewski	5,129	1,024	6,153
<b>Supervisory Board</b>			
Krzysztof Maślankowski	0	0	0
Grażyna Dec	0	0	0
Henryk Czapla	0	0	0
Wiesław Różycki	0	0	0
Bogdan Kowal	2,025	1,024	3,049
Adam Partyka	0	1,024	1,024
<b>Total</b>	<b>15,138</b>	<b>5,120</b>	<b>20,258</b>

\*Shares acquired free of charge from the State Treasury under Article 36 of the Act on Commercialisation and Privatisation of 30 August 1996 (Dz.U. of 2002, No. 171, item 1397, as amended);



## 2.3 Price of Rights to Shares/ Shares of the Company since its debut on the Warsaw Stock Exchange

Closing prices of the shares in LW BOGDANKA S.A. from the beginning of listings (i.e. 25 June 2009) until 13 May 2010



## 3. PRINCIPLES OF DRAWING UP THE GROUP'S ABRIDGED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the provisions of the International Accounting Standards and the International Financial Reporting Standards, as well as the Regulation of the Polish Council of Ministers of 19 October 2005 on current and periodic information furnished by the issuers of securities (Dz. U. No. 209 dated 26 October 2005).

Data for the consolidated quarterly report and the abridged quarterly financial statements of Lubelski Węgiel BOGDANKA S.A. has been prepared in compliance with the same accounting principles and calculation methods as in the previous annual financial statements.

## 4. ANALYSIS OF AND INFORMATION ON THE BASIC FINANCIAL VALUES DISCLOSED IN THE ABRIDGED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE THREE-MONTH PERIOD ENDING ON 31 MARCH 2010

### 4.1 Information on the Company or its subsidiary granting sureties for a credit facility or loan or granting guarantees

In the period from 1 January 2010 to 31 March 2010, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

## 4.2 ANALYSIS OF AND INFORMATION ON THE BASIC FINANCIAL VALUES DISCLOSED IN THE FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST QUARTER OF 2010, I.E. FROM 1 JANUARY 2010 TO 31 MARCH 2010

All financial data and indicators have been presented on the basis of the consolidated quarterly financial statements of the Group, drawn up in accordance with the International Financial Reporting Standards approved by the European Union.

### 4.2.1 Selected financial information

Table 4 Selected financial information of the LW BOGDANKA Group (in PLN '000 unless indicated otherwise)

Item	I quarter of 2010	I quarter of 2009	Change (%)
Revenue on sales	294,096	244,506	20.28%
Gross profit	95,672	83,587	14.46%
EBITDA	95,261	91,600	4.00%
EBIT (Operating profit)	62,164	59,129	5.13%
Profit before taxation	65,798	58,998	11.53%
Net profit for the financial year	52,770	47,316	11.53%

Table 5

Item	I quarter of 2010	I quarter of 2009	Change (%)
Net operating cash flow	203,816	55,612	266.50%
Net investing cash flow	-241,872	-54,614	342.88%
Inflows	6,923	1,005	588.86%
Outflows	-248,795	-55,619	347.32%
Net financing cash flow		50,530	-100.00%
Inflows		50,530	-100.00%
Outflows			-

Table 6

Item	31 Mar. 2010	31 Dec. 2009	Change (%)
Total assets	2,614,119	2,469,814	5.84%
Tangible fixed assets	1,706,166	1,558,727	9.46%
Current assets, including:	849,058	852,286	-0.38%
Stocks	52,917	50,382	5.03%
Trade debtors and other receivables	152,538	117,491	29.83%
Overpaid income tax		2,754	-100.00%
Cash and cash equivalents	643,603	681,659	-5.58%
Total liabilities	822,452	730,917	12.52%

Provisions for liabilities	132,150	126,675	4.32%
Long-term liabilities (excluding provisions)	411,500	414,700	-0.77%
<i>including credit facilities and long-term loans</i>	250,000	250,000	
Short-term liabilities (excluding provisions)	278,802	189,542	47.09%
<i>including credit facilities and short-term loans</i>			-
Shareholders' equity	1,791,667	1,738,897	3.03%
Share capital	301,158	301,158	
Number of shares (units)*	34,013,590	28,287,563	20.24%
Net earnings attributable to shareholders of the Company (PLN per share)	1.55	6.75	-77.04%

\* for 2009 an average annualised number of shares was given

## 4.2.2 Information on the current financial standing of the LW BOGDANKA Capital Group

### Revenue on sales

During the first quarter of 2010, LW BOGDANKA's revenue on sales was higher by 20.28% than revenue on sales achieved in the first quarter of 2009. This increase in revenue was attributable to higher revenue from one of the four defined groups / types of activity and lower revenue from the other three groups.

An increase was seen in the most significant part of the Group's revenue, i.e. revenue from the sale of coal, which was up by 21.93% compared to the same period of 2009. This increase was mostly the result of a 23.48% rise in the quantity of the coal sold. Sales revenue from ceramics, other activities and from the sale of goods and materials were lower than in the first quarter of 2009. The highest decrease was seen in sales of ceramics (-42.36%), resulting from a seasonal downturn in the construction market. Additionally, the lower sales of Ekoklinkier bricks, as well as of all construction products, in the first quarter of 2010 were largely the result of the winter weather slowing down the progress of construction work. Sales revenue from goods and materials dropped by 19.05%.

The main source of sales revenue for the LW BOGDANKA Group in the first quarter of 2010 (as well as in the first quarter of 2009) was production and sale of power coal. From 1 January to 31 March 2010, sales of power coal accounted for 96.87% of the LW BOGDANKA Group's sales revenue (95.56% in the same period of 2009). Most (approx. 85%) coal sales realised in the above-mentioned period (as well as in the same period of the previous year) were carried out on the basis of long-term commercial agreements with regular key customers of the Parent Undertaking (primarily Elektrownia Kozienice S.A., GDF Suez Energia S.A. [former Elektrownia Połaniec S.A.], Zakłady Azotowe Puławy S.A. and Elektrownia Ostrołęka S.A.).

The share of other areas of the Group's operations, including the operations of the subsidiary, Łęczyńska Energetyka Sp. z o.o. in Bogdanka, in the sales of the LW BOGDANKA Group was 3.13% in the first quarter of 2010 and 4.44% in the first quarter of 2009.

Table 1 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (PLN '000)

Item	I quarter of 2010	I quarter of 2009	Change (%)
Sales of coal	284,890	233,646	21.93%
Sales of ceramics	1,463	2,538	-42.36%
Other activities	5,844	5,976	-2.21%

Sales of goods and materials	1,899	2,346	-19.05%
<b>Total revenue on sales</b>	<b>294,096</b>	<b>244,506</b>	<b>20.28%</b>

Table 8 Structure by type of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	I quarter of 2010	% share	I quarter of 2009	% share
Sales of coal	284,890	96.87%	233,646	95.56%
Sales of ceramics	1,463	0.50%	2,538	1.04%
Other activities	5,844	1.99%	5,976	2.44%
Sales of goods and materials	1,899	0.64%	2,346	0.96%
<b>Total revenue on sales</b>	<b>294,096</b>	<b>100.00%</b>	<b>244,506</b>	<b>100.00%</b>

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. During the analysed periods (of 2009 and 2010), export sales constituted a fraction of revenues generated – their share in total revenue on sales amounted to 0.04%.

Table 9 Geographical structure of revenue on sales of the LW BOGDANKA Group (in PLN '000)

Item	I quarter of 2010	% share	I quarter of 2009	% share
Domestic sales	293,986	99.96%	244,410	99.96%
Foreign sales	110	0.04%	96	0.04%
<b>Total revenue on sales</b>	<b>294,096</b>	<b>100.00%</b>	<b>244,506</b>	<b>100.00%</b>

In the first quarter of 2010 (as in the previous years), the revenue on sales generated by the LW BOGDANKA Group were primarily determined by the Company's production (extraction) capacity of the Company, as presented in the table below.

Table 10 Production capacity of LW BOGDANKA for Q1 2010 and Q1 2009 ('000 tonnes)

I quarter of 2010	I quarter of 2009	Change (%) (2010/2009)
1,400.80	1,234.46	13.47%

During the first quarter of 2010, production of commercial coal was 13% higher than in the same period of 2009 (with a gross extraction at the same level as in Q1 2009). This was attributable to better geological characteristics of the deposit under mining and the development and improvement of solutions for initial separation of waste rock from the material underground.

Table 11 Sale of coal of LW BOGDANKA for Q1 2010 and Q1 2009 ('000 tonnes)

<b>I quarter of 2010</b>	<b>I quarter of 2009</b>	<b>Change (%) (2010/2009)</b>
1,370.90	1,110.23	23.48%

## Stocks

The level of stocks of coal held by the Company as at 31 March 2010 amounted to 94,644.03 tonnes (which constituted an increase by 29,859.39 tonnes relative to the level as at 31 December 2009 and a decrease by 33,590.89 tonnes relative to the 31 March 2009). It should be noted that this is a standard stock level, allowing the current sales to be secured and is an operational technological stock with the current daily extraction of approx. 18,000 tonnes/day.

Table 12

<b>Item</b>	<b>31 Mar. 2010</b>	<b>31 Dec. 2009</b>	<b>31 Mar. 2009</b>	<b>Change (%) (31 Mar. 2010/31 Dec. 2009)</b>	<b>Change (%) (31 Mar. 2010/31 Mar. 2009)</b>
Stock of coal	94,644.03	64,784.64	128,234.92	46.09%	-26.19%

## Profitability of the Group

Table 13 Profitability ratios of the LW BOGDANKA Group

<b>Item</b>	<b>I quarter of 2010</b>	<b>I quarter of 2009</b>
Gross margin on sales	32.53%	34.19%
EBITDA	32.39%	37.46%
EBIT	21.14%	24.18%
Gross margin	22.37%	24.13%
Net margin	17.94%	19.35%
Return on Assets	2.08%	5.71%
Return on Equity	2.99%	8.48%

### *Principles for calculating the ratios:*

Gross margin on sales = gross profit for the period/revenue on sales for the period

EBITDA = EBITDA for the period/revenue on sales for the period

EBIT = EBIT (operating profit ) for the period/revenue on sales for the period

Gross margin = pre-tax profit/revenue on sales for the period

Net margin = net profit for the financial year/revenue on sales for the period

Return on assets = net profit for the financial year/average assets based on the value from the beginning and end of the period

Return on equity = net profit for the financial year/average shareholders' equity based on the value from the beginning and end of the period

During the first quarter of 2010, the profitability ratios regarding the Company's operations achieved higher values than in the same period of the previous year. The LW BOGDANKA's gross margin achieved the level of 32.53% and was higher than in the analogous period of 2009 by nearly 2 p.p. The decrease in that ratio resulted from a higher cost dynamics of products, goods and materials sold relative to the dynamics of revenues.

The profitability of EBIT reached 21.14%, which means an increase by more than 3 p.p. in comparison to the same period in the previous year. Gross margin amounted to 22.37%, while net margin reached the level of 17.94%.

The net profit of the LW BOGDANKA Group for the first three months of 2010 was PLN 52.77 million and was higher by 11.53% than the net profit for the first three months of 2009.

### **Operating result - EBIT**

In the first quarter of 2010, the LW BOGDANKA Group recorded a 5.13% increase in operating profits compared to the same period of the previous year. The Group's operating profit increased from PLN 59.13 million to PLN 62.16 million, primarily due to a 20.28% increase in the Group's revenue on sales.

### **Sources of capital of the LW BOGDANKA Group**

Table 14 Sources of capital of the LW BOGDANKA Group (PLN '000)

<b>Item</b>	<b>I quarter of 2010</b>	<b>I quarter of 2009</b>
<b>Total long-term financing</b>	<b>0</b>	<b>0</b>
Increase in shareholders' equity	0	0
Contracted long-term bank loans	0	0
<b>Total short-term financing</b>	<b>210,739</b>	<b>56,617</b>
Operating cash flow	203,816	55,612
Cash inflow from investment activities	6,923	1,005
Contracted short-term bank loans	0	0
<b>Total sources of capital</b>	<b>210,739</b>	<b>56,617</b>
Cash and cash equivalents (beginning of period)	681,659	99,874
Cash and cash equivalents (end of period)	643,603	151,402

In the first quarter of 2010, the LW BOGDANKA Group recorded an increase in the value of shareholders' equity, which was the effect of increasing the value of retained profit and a slight increase in the value of minority interests.

Table 15 Shareholders' equity and third-party capital of the LW BOGDANKA Group (PLN '000)

<b>Item</b>	<b>31 Mar. 2010</b>	<b>31 Dec. 2009</b>
<b>Shareholders' equity</b>	<b>1,791,667</b>	<b>1,738,897</b>
<b>Third-party capital</b>	<b>822,452</b>	<b>730,917</b>
Long-term third party capital	474,579	477,779
<i>Provisions for other liabilities and charges</i>	<i>63,079</i>	<i>63,079</i>
<i>Trade creditors and other liabilities</i>	<i>7,488</i>	<i>7,834</i>
<i>Loans and borrowings</i>	<i>250,000</i>	<i>250,000</i>
<i>Deferred income tax liabilities</i>	<i>52,070</i>	<i>58,278</i>
<i>Employee benefits liabilities</i>	<i>101,942</i>	<i>98,588</i>
Long-term third-party capital	347,873	253,138
<i>Provisions for other liabilities and charges</i>	<i>69,071</i>	<i>63,596</i>
<i>Loans and borrowings</i>	<i>0</i>	<i>0</i>
<i>Trade creditors and other liabilities</i>	<i>248,629</i>	<i>163,204</i>
<i>Current income tax liabilities</i>	<i>4,004</i>	<i>0</i>
<i>Employee benefits liabilities</i>	<i>26,169</i>	<i>26,338</i>

In the first quarter of 2010, the LW BOGDANKA Group financed its operations from shareholders' equity and using third-party capital in the form of a bank loan and a commercial loan granted by the Group's suppliers. Shareholders' equity remains the key source of financing.

## Cash flows of the LW BOGDANKA Group

Table 16 Structure of cash flows of the LW BOGDANKA Group (PLN '000)

Item	I quarter of 2010	I quarter of 2009
Net operating cash flow	203,816	55,612
Pre-tax profit (loss)	65,798	58,998
Total adjustments	138,018	-3,386
<i>Including amortisation/depreciation</i>	<i>33,097</i>	<i>32,471</i>
Net investing cash flow	-241,872	-54,614
Inflows	6,923	1,005
Outflows	-248,795	-55,619
Net financing cash flow	0	50,530
Inflows	0	50,530
Outflows	0	0
<i>Including paid dividends</i>	<i>0</i>	<i>0</i>
<b>Total net cash flow</b>	<b>-38,056</b>	<b>51,528</b>
Cash and cash equivalents (beginning of period)	681,659	99,874
<b>Cash and cash equivalents (end of period)</b>	<b>643,603</b>	<b>151,402</b>

The LW BOGDANKA Group's policy relating to financing and managing funds primarily involves financing operating activities from profits and bank loans.

In the first quarter of 2010, the LW BOGDANKA Group financed its business activities with operating cash flows, the main source of which were pre-tax earnings and depreciation/amortisation. The Group's financial activity did not generate any cash flow in the period under analysis. The investment activities of the LW BOGDANKA Group generated a negative balance of cash flows in the total amount of PLN 248.79 million (including due to investments made in tangible fixed assets in the amount of PLN 180,595.70).

## The debt ratios and financing structure of the LW BOGDANKA Group

Table 17 Debt ratios of the LW BOGDANKA Group

Item	31 Mar. 2010	31 Dec. 2009
Overall debt ratio	0.31	0.30
Debt to equity ratio	0.46	0.42
Fixed capital to fixed assets ratio	1.25	1.33
Short-term debt ratio	0.13	0.10
Long-term debt ratio	0.18	0.19

*Principles for calculating the ratios:*

overall debt ratio = total liabilities / total shareholders' equity and liabilities

debt to equity ratio = total liabilities / shareholders' equity

fixed capital to fixed assets ratio = (shareholders' equity + long-term liabilities excluding provisions) / fixed assets

short-term debt ratio = short-term liabilities / total liabilities

long-term debt ratio = long-term liabilities / total liabilities

As at 31 March 2010, the share of liabilities in the financing of the operations of the LW BOGDANKA Group, measured by the overall debt ratio, amounted to 31% and, respectively, 30% as at 31 December 2009. The LW BOGDANKA Group's debts did not constitute a threat, in the period covered by the consolidated quarterly financial statements, to its operations or ability to punctually pay its liabilities. In the period under analysis, the

debt-equity ratio increased by 4 percentage points as a result of an increase in trade creditors and other liabilities from PLN 163,204,000 to PLN 248,629,000. This increase was largely attributable to the Company's amounts due to suppliers as of the balance sheet date in connection with a development project in the Stefanów Field (i.e. supplies of machines, equipment and services).

The Company's asset financing structure is correct, with a long-term liabilities to fixed assets ratio of over 100%.

Table 18 Liquidity ratios of the LW BOGDANKA Group

Item	31 Mar. 2010	31 Dec. 2009
Current liquidity ratio	3.05	4.50
Quick liquidity ratio	2.86	4.23

*Principles for calculating the ratios:*

current liquidity ratio = current assets/short-term liabilities excluding provisions

quick liquidity ratio = (current assets – stocks)/short-term liabilities excluding provisions

In the period covered by the consolidated quarterly financial statements, the liquidity ratios of the LW BOGDANKA Group remained at a very high, safe level, and the Group is not having any difficulties in settling its liabilities.

Such a significant increase in the analysed liquidity ratios (both as at 31 March 2010 and 31 December 2009) results from the value of cash injected to the Parent Undertaking as a result of the share capital increase (debut on the Warsaw Stock Exchange). Given the pursued investment programme, a drop of these ratios should be expected to the levels treated as optimum in relevant literature.

Table 19 Turnover rates of LW BOGDANKA (in days)

Item	31 Mar. 2010	31 Dec. 2009
Stock turnover	23.4	20.5
Trade debtors collection rate	41.3	41.3
Trade creditors payment rate	93.4	74.6
Operating cycle (1+2)	64.7	61.8
Cash conversion cycle (4-3)	-28.7	-12.8

*Principles for calculating the ratios:*

stock turnover = (average stocks based on the level at the beginning and end of the financial year/cost of products, goods and materials sold) x the number of days in the period

trade debtors collection rate = (average trade debtors based on the level at the beginning and end of the financial year/revenue on sales) x the number of days in the period

trade creditors payment rate = (average trade creditors based on the level at the beginning and end of the financial year/cost of products, goods and materials sold) x the number of days in the period

As at 31 March 2010, the value of the stock turnover ratio showed a growth trend compared to 31 December 2009 (an increase from 20.5 days to 23.4 days), which indirectly is a result of an increase in the stock of coal.

Trade debtors collection rate remained at the same level (which means that accounts receivable are collected by the Group in the same time, with a concurrent increase in revenues by 20.28%).

The trade creditors payment rate increased in the period covered by financial information from 74.6 days as at 31 December 2009 to 93.4 days as at 31 March 2010 (which results from the increase in trade creditors and other liabilities and investment services, as discussed above).

As a result of the trends described above, a cash conversion cycle of -28.7 days was achieved as at 31 March 2010 (-12.8 as at 31 December 2009).



## Consolidated Statement of Comprehensive Income

Table 20 Selected items of the Consolidated Statement of Comprehensive Income of the LW BOGDANKA Group (PLN '000)

Item	I quarter of 2010	I quarter of 2009	Change (%) (2010/2009)
Revenue on sales	294,096	244,506	20.28%
Cost of products, goods and materials sold, cost of sales, administrative expenses	223,777	185,797	20.44%
<b>Profit on sales</b>	<b>70,319</b>	<b>58,709</b>	<b>19.78%</b>
Other income	2,013	1,434	40.38%
Other expenses	1,566	1,100	42.36%
<b>Net operating profit/loss</b>	<b>70,766</b>	<b>59,043</b>	<b>19.86%</b>
Other net profit/loss	-8,602	86	-10102.33%
<b>Operating profit</b>	<b>62,164</b>	<b>59,129</b>	<b>5.13%</b>
Financial income	6,238	1,175	430.89%
Financial expenses	2,650	1,741	52.21%
- diluted	46	435	-89.43%
<b>Profit before taxation</b>	<b>65,798</b>	<b>58,998</b>	<b>11.53%</b>
Income tax	13,028	11,682	11.52%
<b>Net profit for the financial year</b>	<b>52,770</b>	<b>47,316</b>	<b>11.53%</b>
- attributable to shareholders of the Company	52,957	47,186	12.23%

In the first three months of 2010, the LW BOGDANKA Group's sales revenue grew, compared to the same period of the previous year, at almost the same pace as the cost of the products, goods and materials sold together with selling costs and administrative costs (up by 20.28% and 20.44%, respectively). This increase in costs and revenue led to the profit on sales increasing by 19.78%, or PLN 70,319,000, in the first quarter of 2010 compared to PLN 58,709,000 in the first quarter of 2009.

### Other income

For three months of 2010, other operating revenues amounted to PLN 2,013,000 compared to PLN 1,434,000 for the same period of the previous year – which means an increase in their value by 40.38%. The high value in 2010 was a result of a lower value of damages received and higher other income.

### Other expenses

For three months of 2010, other operating expenses amounted to PLN 1,566,000 compared to PLN 1,100,000 incurred in the same period of the previous year – which means an increase in their value by 42.36%. In the periods under analysis, the value of cash donations increased.

These values of other operating income generated and expenses incurred led to operating profit for three months of 2010 reaching PLN 70,766,000, compared to PLN 59,043,000 for the previous year. Operating profit increased by 19.86% on a year-on-year basis.

### Other net profit/loss

During 2009 and in early 2010, the Parent Undertaking was gradually buying euros for the purpose of future payment for a low deposit mining system. The increase in 'Other net profit/loss' is the result of negative exchange differences due to the strengthening of PLN against EUR in relation to the average purchase price of the foreign currency held.

The inclusion of 'Other net profit/loss' in net operating profit/loss resulted in the Group's operating profit of PLN 62,164,000 (for the first quarter of 2010) and PLN 59,129,000 (for the first quarter of 2009).

### Financial income

In the first quarter of 2010, the Group obtained financial income of PLN 6,238,000, compared to PLN 1,175,000 in the previous year (an increase by 430,89%). The increase in financial income resulted from the higher amount of cash available in the LW BOGDANKA Group, kept in bank term deposits.

### Financial expenses

For three months of 2010, financial expenses of PLN 2,650,000 were incurred, as compared to PLN 1,741,000 in the same period of the previous year. Increase in financial expenses by 52.21% resulted from contracting in 2009 of higher third-party, interest bearing, financing – current debt of the Group amounts to PLN 250,000,000.

These values of financial income generated and expenses incurred led to pre-tax profits for three months of 2010 reaching PLN 65,798,000, compared to PLN 58,998,000 in the previous year. Profit before taxation increased by 11.53% on a year-on-year basis.

## Balance sheet

Table 21 Selected items of the LW BOGDANKA Group's balance sheet

Item	31 Mar. 2010	31 Dec. 2009	Change (%) (2010/2009)
<b>Assets</b>			
<b>Fixed assets</b>	<b>1,765,061</b>	<b>1,617,528</b>	<b>9.12%</b>
Tangible fixed assets	1,706,166	1,558,727	9.46%
Intangible fixed assets	11,726	12,199	-3.88%
Investments in affiliated undertakings	34	77	-55.84%
Trade debtors and other receivables	367	367	
Cash and cash equivalents	46,768	46,158	1.32%
<b>Current assets</b>	<b>849,058</b>	<b>852,286</b>	<b>-0.38%</b>
Stocks	52,917	50,382	5.03%
Trade debtors and other receivables	152,538	117,491	29.83%
Overpaid income tax		2,754	-100.00%
Cash and cash equivalents	643,603	681,659	-5.58%
<b>TOTAL ASSETS</b>	<b>2,614,119</b>	<b>2,469,814</b>	<b>5.84%</b>
<b>Shareholders' equity</b>			
<b>Shareholders' equity attributable to Company's shareholders</b>	<b>1,782,911</b>	<b>1,729,954</b>	<b>3.06%</b>
Ordinary shares	301,158	301,158	
Other capitals	890,456	890,456	
Retained profits	591,297	538,340	9.84%
<b>Minority interests</b>	<b>8,756</b>	<b>8,943</b>	<b>-2.09%</b>
<b>Total shareholders' equity</b>	<b>1,791,667</b>	<b>1,738,897</b>	<b>3.03%</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>	<b>474,579</b>	<b>477,779</b>	<b>-0.67%</b>
Loans and borrowings	250,000	250,000	,
Deferred income tax liabilities	52,070	58,278	-10.65%
Employee benefits liabilities	101,942	98,588	3.40%
Provisions for other liabilities and charges	63,079	63,079	

Item	31 Mar. 2010	31 Dec. 2009	Change (%) (2010/2009)
Trade creditors and other liabilities	7,488	7,834	-4.42%
<b>Short-term liabilities</b>	<b>347,873</b>	<b>253,138</b>	<b>37.42%</b>
Loans and borrowings			-
Current income tax liabilities	4,004		-
Employee benefits liabilities	26,169	26,338	-0.64%
Provisions for other liabilities and charges	69,071	63,596	8.61%
Trade creditors and other liabilities	248,629	163,204	52.34%
<b>Total liabilities</b>	<b>822,452</b>	<b>730,917</b>	<b>12.52%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,614,119</b>	<b>2,469,814</b>	<b>5.84%</b>

The balance-sheet total as at 31 March 2010 presented in the consolidated financial statements increased as compared to the balance sheet presented at the end of 2009 by PLN 144,305,000.

On the assets side, fixed assets increased and current assets decreased. On the liabilities side, equity capital and borrowed capital increased.

During the period being analysed, the value of fixed assets increased by 9.12% (from PLN 1,617,528,000 to PLN 1,765,061,000). The increase is primarily due to the performance of the LW BOGDANKA Group's investment programme and this trend should be expected to continue in the following years. At the same time, current assets dropped (by 0.38%), mostly as a result of a decrease in cash by PLN 38,056,000 and overpaid income tax, with an increase in stocks of materials and goods by PLN 2,535,000 and in trade debtors and other receivables by PLN 35,047,000. In total, the sum total of assets as at 31 March 2010 relative to the Opening Balance increased by 5.84%.

The increase in the items disclosed in the balance sheet on the shareholders' equity and liabilities side was primarily caused by an increase in the following values:

- shareholders' equity by PLN 52,770,000 (including an increase in the value of retained profits),
- short-term liabilities by PLN 94,735,000 (including trade creditors and other liabilities - by PLN 85,425,000).

### Information on the structure of assets and liabilities

Table 22 Structure of the balance sheet of the LW BOGDANKA Group

Item	31 Mar. 2010	Structure	31 Dec. 2009	Structure
<b>Assets</b>				
<b>Fixed assets</b>	<b>1,765,061</b>	<b>67.52%</b>	<b>1,617,528</b>	<b>65.49%</b>
Tangible fixed assets	1,706,166	65.27%	1,558,727	63.11%
Intangible fixed assets	11,726	0.45%	12,199	0.49%
Investments in affiliated undertakings	34		77	
Trade debtors and other receivables	367	0.01%	367	0.01%
Cash and cash equivalents	46,768	1.79%	46,158	1.87%
<b>Current assets</b>	<b>849,058</b>	<b>32.48%</b>	<b>852,286</b>	<b>34.51%</b>
Stocks	52,917	2.02%	50,382	2.04%

<b>Item</b>	<b>31 Mar. 2010</b>	<b>Structure</b>	<b>31 Dec. 2009</b>	<b>Structure</b>
Trade debtors and other receivables	152,538	5.84%	117,491	4.76%
Overpaid income tax			2,754	0.11%
Cash and cash equivalents	643,603	24.62%	681,659	27.60%
<b>TOTAL ASSETS</b>	<b>2,614,119</b>	<b>100.00%</b>	<b>2,469,814</b>	<b>100.00%</b>
<b>Shareholders' equity</b>				
<b>Shareholders' equity attributable to Company's shareholders</b>	<b>1,782,911</b>	<b>68.20%</b>	<b>1,729,954</b>	<b>70.04%</b>
Ordinary shares	301,158	11.52%	301,158	12.19%
Other capitals	890,456	34.06%	890,456	36.05%
Retained profits	591,297	22.62%	538,340	21.80%
<b>Minority interests</b>	<b>8,756</b>	<b>0.33%</b>	<b>8,943</b>	<b>0.36%</b>
<b>Total shareholders' equity</b>	<b>1,791,667</b>	<b>68.54%</b>	<b>1,738,897</b>	<b>70.41%</b>
<b>Liabilities</b>				
<b>Long-term liabilities</b>	<b>474,579</b>	<b>18.15%</b>	<b>477,779</b>	<b>19.34%</b>
Loans and borrowings	250,000	9.56%	250,000	10.12%
Deferred income tax liabilities	52,070	1.99%	58,278	2.36%
Employee benefits liabilities	101,942	3.90%	98,588	3.99%
Provisions for other liabilities and charges	63,079	2.41%	63,079	2.55%
Trade creditors and other liabilities	7,488	0.29%	7,834	0.32%
<b>Short-term liabilities</b>	<b>347,873</b>	<b>13.31%</b>	<b>253,138</b>	<b>10.25%</b>
Loans and borrowings				
Current income tax liabilities	4,004	0.15%		
Employee benefits liabilities	26,169	1.00%	26,338	1.07%
Provisions for other liabilities and charges	69,071	2.64%	63,596	2.57%
Trade creditors and other liabilities	248,629	9.51%	163,204	6.61%
<b>Total liabilities</b>	<b>822,452</b>	<b>31.46%</b>	<b>730,917</b>	<b>29.59%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,614,119</b>	<b>100.00%</b>	<b>2,469,814</b>	<b>100.00%</b>

The asset item with the largest share in the balance-sheet total is fixed assets (their share amounted to 67.52% and 65.49% as at 31 March 2010 and 31 December 2009, respectively). Tangible fixed assets accounted for 65.27% and 63.11% of the balance-sheet total, respectively. The share of current assets decreased in the period under analysis from 34.51% (as at 31 December 2009) to 32.48% (as at 31 March 2010), accompanied by a decrease in the share of cash and cash equivalents from 27.60% to 24.62%.

The share of shareholders' equity in the sum total of shareholders' equity and liabilities decreased from 70.41% (on 31 December 2009) to 68.54% (on 31 March 2010), and the shareholders' equity attributable to the Group's shareholders amounted to 70.04% and 68.20%, respectively, of the sum total of shareholders' equity and liabilities.

The total share of liabilities in the balance-sheet total increased from 29.59% (as at 31 December 2009) to 31.46% (as at 31 March 2010), with the share of short-term liabilities increasing to 13.31% and the share of long-term liabilities decreasing to 18.15%. Short-term trade creditors increased during the period being analysed from 6.61% (31 December 2009) to 9.51% (31 March 2010) of the balance-sheet total.

### **4.3 Costs by type of the Parent Undertaking, LW BOGDANKA S.A.**

This section presents costs of LW BOGDANKA S.A. by type and function.

#### **4.3.1 Costs by type**

In the first quarter of 2010, LW BOGDANKA S.A.'s costs amounted to PLN 287,791,000 compared to PLN 240,751,000 in the same period of last year, which means that the costs increased by 19.54%. The above nominal increase in costs was largely the result of higher costs of materials and energy consumption as well as higher costs of third-party services and, to a smaller degree, an increase in other costs.

Table 23 Costs by type of LW BOGDANKA S.A.

<b>Item</b>	<b>I quarter of 2010</b>	<b>I quarter of 2009</b>	<b>Change [%]</b>	<b>Change [PLN '000]</b>
Amortisation/depreciation	32,274	31,713	1.77%	561
Materials and energy consumption	89,818	76,827	16.91%	12,991
Third party services	63,645	35,056	81.55%	28,589
Employee benefits	83,697	80,607	3.83%	3,091
Entertainment and advertising expenses	3,552	4,223	-15.88%	-671
Taxes and charges	5,134	4,593	11.78%	541
Other expenses	9,671	7,733	25.07%	1,939
<b>TOTAL COSTS BY TYPE</b>	<b>287,791</b>	<b>240,751</b>	<b>19.54%</b>	<b>47,041</b>
Change in products	2,217	-14,817	-114.96%	17,034
<b>Cost of sales</b>	<b>290,008</b>	<b>225,934</b>	<b>28.36%</b>	<b>64,074</b>
Activities for the Company's own needs	68,297	43,606	56.62%	24,692
Cost of goods and materials sold	1,826	2,148	-14.99%	-322
<b>Cost of products sold</b>	<b>223,537</b>	<b>184,476</b>	<b>21.17%</b>	<b>39,061</b>

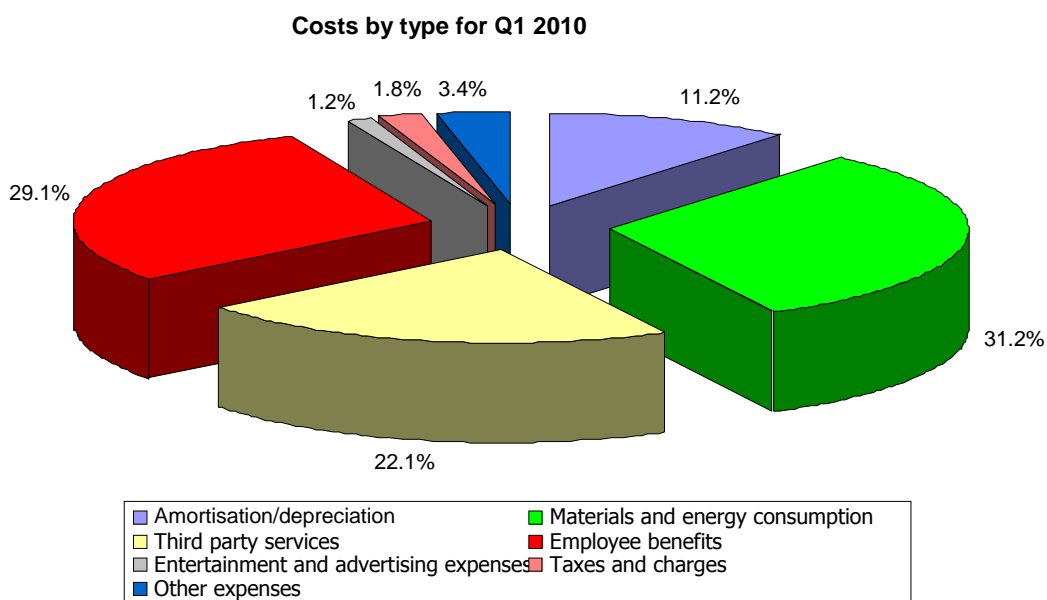
The increase in the costs of materials and energy consumption was mostly attributable to higher costs of the materials used (up by approx. 21%) and, to a smaller degree, to higher costs of energy consumption (up by approx. 5%). The increase in these cost items was the result of more preparatory and deposit-opening work connected with the Company's development strategy compared to last year, e.g. over 1,100 running metres of galleries more were prepared (up by approx. 23.7%). The larger scope of work led to higher consumption of materials, particularly steel, conveyor belts, fuel and electrical products (cables and wires) used in the construction of underground workings.

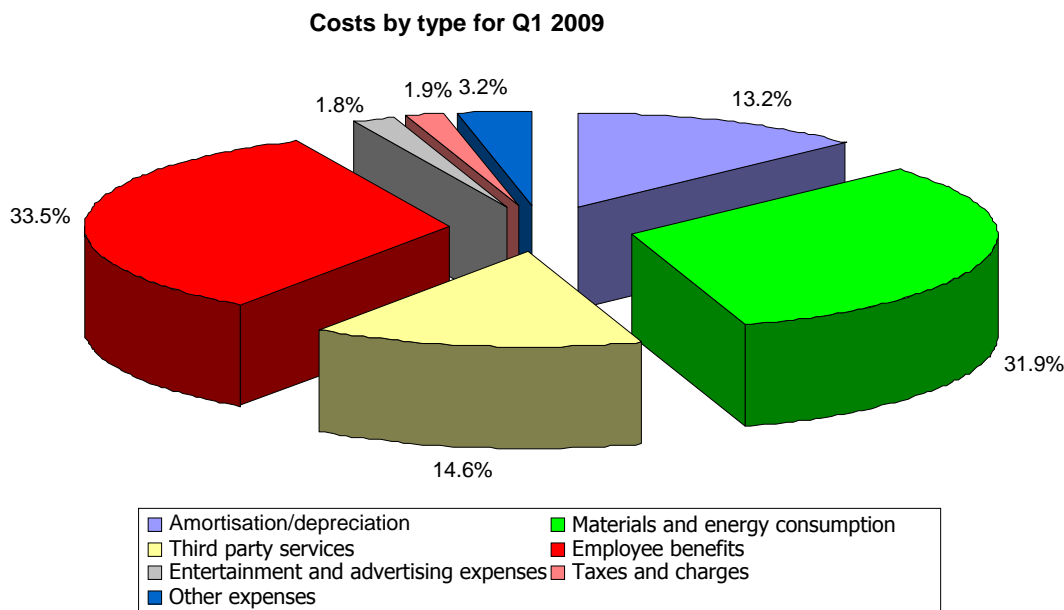
The larger scope of work in the project involving extension of the Mine by adding the Stefanów Field was also, among other things, the reason for a considerable increase in the costs of outsourced services as a result of subcontracting part of the work to external specialist companies, including Saturday/Sunday work carried out by Korporacja Gwarecka. Additionally, this year, as in the previous years, the Company resumed post-production waste (carbonaceous shale) recovery and utilisation by carrying it away and rehabilitating the land, not – as was the case in the first five months of 2009 – by dumping the waste on the dumping site in Bogdanka.

The changes in the costs by type were reflected in a change to the structure of the costs, with the predominant cost item being the costs of materials and energy consumption, which accounted for 31.2% of all the costs in this group. Employee benefits account for a significant 29.1%. The costs of third-party services grew strongly and their growth was the highest, i.e. from 14.6% in the first quarter of 2009 to 22.1% in the first quarter of 2010. Typically, the above cost items account of over 80% of the total costs incurred by the Company.

Table 24 Structure of costs by type at LW BOGDANKA S.A.

Item	I quarter of 2010	I quarter of 2009	Change (%)
Amortisation/depreciation	11.2%	13.2%	-14.87%
Materials and energy consumption	31.2%	31.9%	-2.20%
Third party services	22.1%	14.6%	51.88%
Employee benefits	29.1%	33.5%	-13.14%
Entertainment and advertising expenses	1.2%	1.8%	-29.63%
Taxes and charges	1.8%	1.9%	-6.49%
Other expenses	3.4%	3.2%	4.63%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	





#### 4.3.2 Costs by function

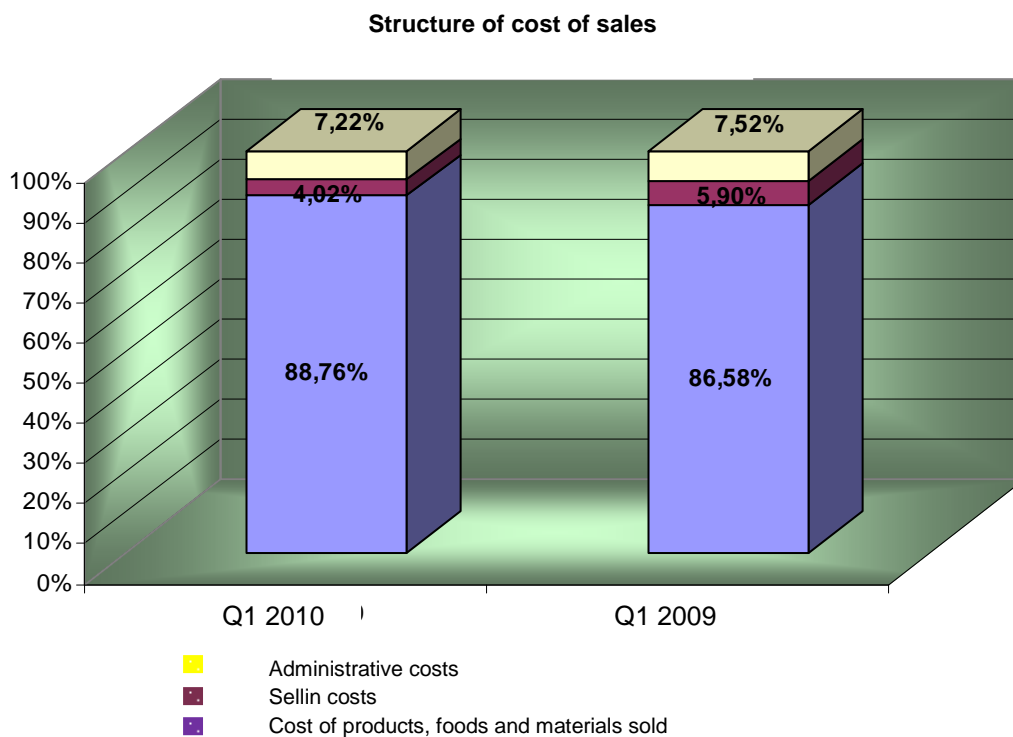
In the first quarter of 2010, LW BOGDANKA S.A.'s costs of sales amounted to PLN 223,537,000 compared to PLN 184,476,000 thousand in the same period of last year, which means that the costs increased by 21.17%. This increase in the costs was largely attributable to an increase in the costs of products, goods and materials sold (up by 24.23%), an increase in administrative costs (up by 16.28%) and a decrease in selling costs (down by 17.43%).

Table 25

Item	I quarter of 2010	I quarter of 2009	Change [%]	Change [PLN '000]
Cost of products, goods and materials sold	198,416	159,715	24.23%	38,701
Selling costs	8,989	10,887	-17.43%	-1,898
Administrative costs	16,132	13,874	16.28%	2,258
<b>Cost of sales</b>	<b>223,537</b>	<b>184,476</b>	<b>21.17%</b>	<b>39,061</b>

The increase in the costs of products, goods and materials sold is directly the result of an increase in the quantity of the coal sold (up by 23.48%). The increase in administrative costs was largely attributable to an increase, in 2010, of property insurance costs and in other taxes and administrative charges. The lower selling costs are the result of lower costs of maintenance and repair in respect of the rail transport department's assets, reduced costs of marketing and advertising the Company's products and reduced sport sponsorship costs.

The structure of the costs of sales did not change significantly. It is predominated by the costs of products sold, accounting for 86-89% of all the costs. The most stable group of costs is administrative costs, which account for approx. 7.2-7.5%.



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

### 5.1 Material investments of the LW BOGDANKA Group in the first quarter of 2010

The table below contains details of key material investments of the LW BOGDANKA Group in the first quarter of 2010.

Table 26 Key material investments of the LW BOGDANKA Group in the first quarter of 2010 (PLN '000)

<b>Fixed assets under construction and purchases of tangible and intangible assets, including:</b>	<b>Outlays incurred from 1 January 2010 to 31 March 2010</b>
Construction and assembly work	77,108.73
Completion of deliveries and purchases of finished goods	103,105.62
Intangible fixed assets	76.38
Other	304.97
Advance payments for fixed assets under construction	0
<b>Total</b>	<b>180,595.70</b>

### 5.2 Equity investments of the LW BOGDANKA Group in the first quarter of 2010

In the first quarter of 2010, the LW BOGDANKA Group did not carry out any equity investments.



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

Lubelski Węgiel BOGDANKA S.A. did not publish forecasts of financial results for the period covered with this Report.

## **7. DEVELOPMENT STRATEGY OF THE LW BOGDANKA GROUP**

The strategic objective of the development of the LW BOGDANKA Group is to build and increase its value for the shareholders by:

- gaining access to new reserves and increasing the level of coal extraction based on the enlargement of the Stefanów Field;
- maintaining a stable position as the main supplier of coal in eastern Poland, particularly for the commercial power industry;
- strengthening its competitive position by cutting the unit costs of extractions and production.

The main strategic objectives of development defined by the LW BOGDANKA Group are:

- doubling the level of extraction of raw materials and thereby doubling the share in the market for hard coal producers in Poland,
- improving the efficiency of hard coal extraction and production,
- ensuring that LW BOGDANKA S.A. is self-sufficient regarding the supply of electricity by developing electricity production activities,
- environmental protection measures.

In the near future, those measures aimed at implementing the planned development strategy of the LW BOGDANKA Group will primarily focus on settling tender procedures relating to selecting contractors for the implementation of the Company's investment tasks, including the development of the Mechanical Coal Processing Plant.

Enlarging the Stefanów Field will enable the production capacity of LW BOGDANKA S.A. to be doubled, as well as the annual quantity of hard coal extraction, starting from 2011 (from the present 5.3 million tonnes in 2011, to 11.1 million tonnes per annum in 2014).

## **8. DESCRIPTION OF RISK FACTORS, THREATS AND FACTORS WHICH, IN THE ASSESSMENT OF LW BOGDANKA S.A., WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY WITHIN AT LEAST THE FOLLOWING QUARTER**

### **8.1 Risk associated with the Company's market environment**

#### **8.1.1 Risk associated with the social and economic situation in Poland and the world**

LW BOGDANKA Group's financial standing depends on the economic situation in Poland and the world. The financial results generated by the Company are affected by the rate of increase in domestic and global GDP, particularly the rate of increase in industrial production, changes in exchange rates, the level of inflation, the rate of unemployment, national fiscal policy, and the demand for electricity and heat energy, etc.

In the event of a significant deterioration of the economic situation of the customers for the power coal, the Group's financial results may decline.

As at the day of submitting the Report, the global markets are suffering an economic crisis which started in 2007 on the American market of mortgage loans, adversely affecting the global economic situation. There is a risk that the crisis may also adversely affect the economic and financial situation of the LW BOGDANKA Group and the entities operating on the markets where the Company sells its products, and therefore may have a detrimental impact on the future financial results of the LW BOGDANKA Group.

Regardless of the macroeconomic situation in Poland and the world, since 1994 the LW BOGDANKA Group has regularly achieved positive financial results. The Group believes that its exposure to negative influence of the macroeconomic situation on its operations is small.

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

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

- "Strategy for hard coal mining sector in Poland for 2007-2015" adopted by the Council of Ministers in July 2007,
- "Poland's energy policy until 2025" adopted by the Council of Ministers in December 2004, which includes the consolidation plans for the fuel-energy sector, updated by the "Poland's energy policy until 2030" adopted by the Council of Ministers on 10 November 2009.
- "The privatisation plan for 2008-2011" adopted by the Council of Ministers on 22 April 2008, updated on 10 February 2009.

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of the LW BOGDANKA Group. The Group's competitiveness may be threatened by government aid for restructured Silesian mines involving subsidies, debt redemption and entity-specific grants.

#### **Budget subsidies to co-finance initial investments in the mining sector:**

Under the Act on the operation of the hard coal mining sector in the period 2008–2015 of 7 September 2007 (Dz.U. of 19 October 2007), a mine may receive a budget subsidy to co-finance an initial investment on terms and conditions set forth in the Regulation of the Council (EC) no. 1407/2002 of 23 July 2002 on state aid to the coal industry (Official Journal L 205 of 02/08/2002, EU Official Journal, special Polish edition, chapter 8, vol. 2, p. 170). The aid for financing an initial investment may be classified as compliant with the common market only if, inter alia, the following conditions are met jointly: (i) the amount of aid per tonne coal equivalent may not cause prices (including delivery) for Community coal to be lower than those for coal of a similar quality from third countries; (ii) aid must not lead to any distortion of competition between coal buyers and users in the Community; (iii) the aid notified and actually paid shall not exceed 30% of the total costs of the relevant investment project which will enable a production unit to become competitive in relation to the prices for coal of a similar quality from third countries.

As of the date of submitting the Report, the amount stipulated for co-financing initial investments in the hard coal mining sector in Poland in the State budget for 2010 was PLN 411 million. What is more, the Ministry of Economy has commenced works on executive laws to the act on operation of the hard coal mining sector in the period 2008–2015 in this respect.

In connection with implementation of the investment plans which involve doubling the production potential, the Company intends to apply for funds to finance the investments connected with implementation of LW BOGDANKA S.A. strategic goals.

#### **8.1.1.2 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, including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group.

LW BOGDANKA S.A. mitigates the risk associated with prices of raw materials for energy production by signing long-term commercial contracts with key customers for power coal. Information on the material trade agreements signed by the Company in the first quarter of 2010 and after the balance-sheet date is presented in sections 12.3-12.5 of the Report.

#### **8.1.1.3 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events**

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

Another key risk associated with the specific nature of mining operations is mining damage. The relevant legislation, e.g. the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group.

The safety level of the operating conditions in LW BOGDANKA S.A.'s mine is relatively high, which is reflected in the low accident indicators compared to other companies in the industry. This is due to, in particular, the Company's strict compliance with the principles of health and safety in the workplace, ongoing monitoring of threats at individual workstations, appropriate preventative measures, the absence of the risk of mine collapses, gas breakouts and rock outbursts and the low risk of a methane explosion (category 1 methane threat on a four-grade scale).

Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA S.A.'s operations include:

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

#### **8.1.1.4 Risk associated with changes in exchange rates**

LW BOGDANKA S.A. has agreements with contracting partners which will be paid in EUR. The Group's financial result may be adversely affected by a change in the EUR exchange rate.

The Company does not use any instruments that provide protection against the exchange rate risk.

## **8.1.2 Risk directly associated with the Group's operations**

### **8.1.2.1 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 kinds of stoppages can occur due to planned and unplanned technical interruptions (e.g. malfunctions). There is a potential risk associated with the effect of unplanned stoppages caused by serious malfunctions on the volume of production and sales and the possibility of punctually making deliveries to the customers of the LW BOGDANKA Group, and therefore on the financial results achieved by the Group in future.

The Company stresses that the risk of stoppages occurring in hard coal extraction operations is minimised by the fact that LW BOGDANKA S.A. extracts coal by the longwall system and its target production capacity is obtained from two mining faces, while due to technical and technological mining conditions the planned level of extraction can be maintained if a stoppage occurs at one of the faces by intensifying work on the other. The enlargement of the Stefanów Field planned by the Company and the associated start-up of a second mining shaft will further reduce the risk of a technological stoppage by ensuring the continuity of hard coal extraction if one of the shafts breaks down.

The Company would also like to point out that it uses advanced mining equipment and machines in its mining operations and 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 (underground coal storage silos with a capacity of 11,500 tonnes) and increasing the safety of the work environment. These measures will significantly reduce the Company's technical and technological risk.

### **8.1.2.2 Risk of IT systems malfunctioning**

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

However, the Company stresses that LW BOGDANKA is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning.

The Company implemented a "Policy for Safety of Information in the IT Systems of Lubelski Węgiel BOGDANKA S.A." which covers organisational and technical measures for data protection and maintaining undisturbed systems operation. This refers to the organisation of access to data, making safety copies and their storage, using firewalls, anti-virus systems on servers and employees' PCs. The servers supporting the systems are a high-class equipment with double power and data storage systems. In order to increase safety levels, works on such subjects as server cluster system or central data backup are continuously carried out.

IT systems used at the LW BOGDANKA Group have no effect on operating activities associated with extracting hard coal and therefore if they malfunction the continuity of hard coal extraction would not be threatened.

### **8.1.2.3 Key customer risk**

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

As at the date of submitting the Report, the Company has agreements signed with key customers ensuring sales of the coal and stable financial and technical planning until the end of 2010.

#### **8.1.2.4 Key supplier risk**

The specific nature of the Company's operations requires applying technologies which often involve the use of highly specialised machinery and equipment as well as specialised services. Therefore there is a risk of problems occurring in identifying proper suppliers, as well as a risk of suppliers failing to meet their obligations under agreements concluded with the Company.

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 Company requires that a performance bond is made.

#### **8.1.2.5 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by LW BOGDANKA S.A.**

On both the Polish market and export markets, the LW BOGDANKA Group is exposed to price competition from other producers of power coal in Poland (e.g. the mine companies Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.), as well as from eastern markets (including Russia, Ukraine and Kazakhstan).

In the case of domestic coal companies, significant risk factors associated with competition are:

- consolidation processes in the mining 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;
- government assistance for hard coal mines in the Silesia region covered by a restructuring programme, which includes providing additional funding, cancelling debts and company subsidies,

In the case of coal suppliers from eastern markets, LW BOGDANKA Group has a significant logistical advantage.

In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal compared to the hard coal mined in the Silesia region (its lower calorific value and higher sulphur content), which limits the range of applications of the coal extracted in LW BOGDANKA S.A. to industry and power production and forces the Company's customers to invest in fume desulphurisation installations. However, 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 of the Company have fume desulphurisation installations, the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA S.A. is limited.

#### **8.1.2.6 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 the Report, four trade union organisations were operating at the Company, whose membership constituted a total of 63% of the Company's employees, and a total of six trade union organisations operated in the LW BOGDANKA Group bringing together 62,5% of its 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, any protests and/or strikes organised by the trade unions operating in the LW BOGDANKA Group could affect the operating activities conducted by the Group.

In the Company's opinion, cooperation of the Management Board of LW BOGDANKA with the trade unions operating in the Company has so far been successful. The Company's objectives include continuation of the

cooperation between its Management Board and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the Company's objectives and strategy.

#### **8.1.2.7 Risk of delays in planned investments due to the obligation to apply the Public Procurement Act**

The granting of contracts by entities conducting business activities involving mining hard coal for the purpose of conducting those business activities is subject to the provisions of law on sectoral public contracts. The way the Public Procurement Act has been applied in the past shows that, because of protests and cancellations and also the frequent invalidation of tenders, granting a contract can significantly delay the commencement of an investment. A delay in an investment can result in an increase in costs or a decrease in revenues for LW BOGDANKA and therefore adversely affect its financial results. The Company exercises due diligence to ensure that issues associated with granting public contracts do not cause delays in carrying out investments.

#### **8.1.2.8 Risk of the employees of the Company being additionally employed at Korporacja Gwarecka S.A.**

In 2002, former and present employees of LW BOGDANKA S.A. founded Korporacja Gwarecka S.A., which, as at the date of submitting the Report, cooperates with the Company. That cooperation involves Korporacja Gwarecka S.A. providing outsourcing services to the Company, whereby it provides workers to perform mining and maintenance/refurbishment work on Saturdays, Sundays and holidays. Because that work requires that people with appropriate qualifications and experience be employed, the people employed by Korporacja Gwarecka S.A. are mainly employees who work at the Company from Monday to Friday on the basis of an employment contract concluded directly with the Company.

If the performance of work by employees of LW BOGDANKA S.A. contracted from Korporacja Gwarecka S.A. or a different external entity for LW BOGDANKA S.A. could not be continued, the Company would be forced to employ additional employees or limit its production, which could adversely affect the financial results achieved by the LW BOGDANKA Group.

### **8.1.3 Risk factors associated with proceedings and legal environment**

#### **8.1.3.1 Risk of change to tax laws**

The laws on the tax on goods on services, the corporate income tax, personal income tax, real property tax and social insurance contributions are frequently changed, which results in certain inconsistency and unpredictability in the conduct of tax authorities in relation to taxpayers. The regulations currently in force also include discrepancies and unclear issues which result in differences of opinions as to the legal interpretation of the tax laws both between state authorities and between state authorities and companies. Tax settlements may be the subject of control of tax authorities which, if irregularities are found, have the right to calculate the tax arrears with interest. Tax statements submitted by companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with affiliates, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

#### **8.1.3.2 Risk of real estate tax on mining excavations**

In line with its strategy, when the Company draws up its real estate tax returns, it does not take into account the value of building structures and equipment located in its pits for the purposes of calculating the tax. There is a risk of the tax authorities and courts taking a position in this matter according to which for the purpose of charging real estate tax, a mining excavation should be treated not as a unified structure but as a building

structure consisting of individual structures (or devices) which are functionally connected to each other, i.e. shafts, side drifts, power lines etc. used to extract minerals. In this sense, the structures and devices in question would constitute a constituent part of a pit used for conducting business activities and real estate tax should be levied on those structures (devices). Such a risk is indicated by certain court judgements issued in the context of factual statuses which occurred after 1 January 2003, i.e. after the amendment of the Act on Local Taxes and Charges (consolidated text in Dz.U. of 2006, No. 121, item 844, as amended), by virtue of which a definition of building structures was introduced into the Act on Local Taxes and Charges by reference to the provisions of construction law (e.g. the judgements of the Provincial Administrative Court in Wrocław of 14 April 2008 and of 16 May 2007). The issue of charging real estate tax on mining excavations and the building structures and equipment located in them is controversial in the light of applicable tax laws.

For the purposes of calculating real estate tax on mining excavations, the value of fixed assets recorded in the fixed asset account in group 2 (land and water engineering structures), subgroup 20 (complex building structures in industrial areas), type 200 (building structures for mining) is taken into account, with the exception of selected fixed assets.

Please also note that in December 2008 a government draft amendment to the Mining and Geological Law was put before the Sejm (the lower chamber of Polish parliament). The draft provides that "underground mining excavations and the installations and equipment that they contain are not building structures or construction devices in the meaning of the provisions of construction law". If an amendment to the act is adopted in this form, it will settle the issue of whether mining excavations should be subject to real estate tax, though this would only be effective in the future. The ministerial justification for the amended provisions states that the proposed change results from the inconsistency of past judgements and practice relating to charging real estate tax on mining excavations and the building structures and devices located in them. However, it does not refer to the issue of taxation or its absence until the moment when the amended laws are introduced. As at the date when this Report was submitted, the draft is being considered by the extraordinary subcommittee for considering the government draft of the Mining and Geological Law.

### **8.1.3.3 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 Company, it could lead to a deterioration of its financial situation and as a result negatively affect its results and development prospects.

## **9. PROCEEDINGS PENDING BEFORE A COURT, THE RELEVANT AUTHORITY FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION AUTHORITY**

As at the day of preparing the Directors' Report on Operations of the LW BOGDANKA Capital Group for the first quarter of 2010, neither LW BOGDANKA S.A. nor its subsidiary were parties to proceedings pending before court, arbitration body or administrative body, regarding:

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

## **10. TRANSACTIONS WITH AFFILIATED ENTITIES**

Information on transactions with related entities is provided in Section 10 of the abridged consolidated quarterly financial statements for the first quarter 2010.

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

In the first quarter of 2010, neither Lubelski Węgiel BOGDANKA S.A. nor its subsidiary granted sureties for a credit facility or loan and they did not grant guarantees jointly to a single entity or a subsidiary company of that entity worth the equivalent of at least 10% of the Company's shareholders' equity.

## **12. OTHER INFORMATION WHICH IN THE OPINION OF THE MANAGEMENT BOARD IS SIGNIFICANT FOR ASSESSING THE EMPLOYEES, ASSETS, FINANCIAL STANDING AND FINANCIAL RESULT AND CHANGES THERETO AND INFORMATION WHICH IS SIGNIFICANT FOR ASSESSING THE POSSIBILITY OF LW BOGDANKA S.A. SETTLING ITS LIABILITIES**

### **12.1 Employment**

Table 27 Employment at the Company as at 31 March 2009 and 2010

<b>Employment</b>	<b>I quarter of 2009</b>	<b>I quarter of 2010</b>	<b>Dynamics Q1 2010 / Q1 2009 [%]</b>
<b>Total staff</b>	3,696	3,897	105.44
Underground workers	2,402	2,539	105.70
Surface workers	767	791	103.13
Full-time employees underground	265	286	107.92
Full-time employees on the surface	262	281	105.25
Total underground	2,667	2,825	105.92
Total workers	3,169	3,330	105.08

Employment in the first quarter of 2010 increased by 201 persons, i.e. by 5.44 % in relation to the employment at the end of the first quarter of 2009.

In the first quarter of 2010, 33 persons were employed at the mine; that group is comprised of persons employed from outside the mining industry.

At the same time 21 employees left the mine:

- 16 persons retired (pension or disability retirement),
- 1 person deceased,
- 4 persons - other dismissals (including termination by mutual consent of the parties, disciplinary dismissals, expiration of temporary employment contracts, termination by an employer giving notice, termination by an employee giving notice, unpaid leave, military service).

### **12.2 Fulfilment of the objectives of the issue/use of proceeds from the issue of series C shares**

The purpose of the issue of series C shares was for the Company to obtain funds to finance the completion of selected key investment tasks being implemented as part of an investment programme commenced in previous



years (starting from 1999) associated with increasing the production capacities of LW BOGDANKA S.A. with regard to the production of power coal by extension the Stefanów Field, which was previously financed from the Company's own funds.

Investments associated with completing the construction of the Company's technical infrastructure enabling new production capacities to be started up include the following objectives, as described in the Issue Prospectus, which we plan to carry out in the period 2009-2010 and, with regard to increasing the processing capacities of the Mechanical Coal Processing Plant, in 2009-2011:

- Building the excavation and ventilation shaft 2.1,
- Extension Mechanical Coal Processing Plant, including:
  - a) increasing the processing capacity of the Mechanical Coal Processing Plant from the current level of 1,200 t/h to 2,400 t/h;
  - b) Construction of a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant,
  - c) Coal storage area extension.
- Other investments in the Stefanów Field's technical infrastructure, including:
  - a) Construction of structures in the Stefanów Field,
  - b) Air-conditioning of the underground part of the mine,
- Extension of the Bogdanka station's track system.

In connection with the issue of series C shares, the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, LW BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company shares will allow it to finance, except for investment tasks specified in the Issue Prospectus (objectives of the issue), additional projects, i.e. performance of mining excavations in the Stefanów Field, construction of storage silos in the Stefanów Field as well as the purchase of a coal mine face complex.

In the first quarter of 2010, the Company used PLN 22,445,000 from the proceeds from the issue of series C shares, to perform the following investment tasks:

- Construction of lifting and ventilation shaft 2.1 in the Stefanów Field;
- Construction of the excavated material haulage system from the Stefanów Field to the Mechanical Coal Processing Plant;
- Construction of structures in the Stefanów Field (lifting machine building and switch room for shaft 2.1, as well as main fans station at shaft 2.1);
- Air-conditioning of the underground part of the mine.

## **12.3 Trade agreements**

### **12.3.1 Transactions with Elektrownia Połaniec S.A. – GDF SUEZ ENERGIA POLSKA Group – value of a significant agreement**

On 15 January 2010, the Company announced in Current Report No. 2/2010 that the value of agreements concluded with Elektrownia Połaniec Spółka Akcyjna – GDF SUEZ ENERGIA POLSKA Group since 22 June 2009, i.e. from the date of admission of the Company's securities to stock exchange trading) to 15 January 2010 amounted to PLN 331.78 million net.

The agreement of the highest value concluded with Elektrownia Połaniec S.A. is Annex No. 5 of 15 January to the Long-Term Agreement of 30 October 2007, described in Section 8.6.3.2 of the Issue Prospectus. The Annex will remain in effect from 1 January 2010 to 31 December 2010. It defines the volume of supplies of the power coal, the price and timetable of quarterly deliveries. According to trade terms provided for in the Annex, the Company's revenue for coal supplies to the Połaniec power plant in 2010 will amount to PLN 215.28 million net.

### **12.3.2 Conclusion of a significant agreement with Elektrownia Kozienice S.A.**

On 4 March 2010 the Company concluded a new Long-Term Agreement with Elektrownia Kozienice S.A. covering the period from 4 March 2010 to 31 December 2025. The deliveries of the power coal are to be commenced in the first quarter of 2011. Estimated net value of the agreement according to supply prices in the current year accounts for PLN 10,432 million.

The Company announced the conclusion of this Agreement in Current Report No. 5/2010 of 5 March 2010.

### **12.3.3 Transactions with Huta Łabędy S.A. - value of a significant agreement**

On 22 April 2010, the value of agreements concluded by and between the Company and Huta Łabędy S.A. from 22 June 2009, i.e. from the date of admission of the Company's securities to public trading amounted to PLN 183.7 million net. On the same day an agreement with Huta Łabędy was signed; net value of the agreement is PLN 113,750,000. Its subject matter is the supply of supply of gallery casings made of steel with superior mechanical properties with the use of section V-32 and V-36.

The Company announced the conclusion of this Agreement in Current Report No. 14/2010 of 22 April 2010.

## **12.4 Resignation by a Member of the Supervisory Board**

On 10 May 2010, the Company published current report regarding the resignation of Mr Bogdan Kowal from the position of the Supervisory Board Member. Mr Bogdan Kowal took the position reporting to the President of the Company's Management Board. In accordance with Article 387.2 of the Commercial Companies Code, a person who reports directly to a member of the Management Board may not be a member of the Supervisory Board at the same time.

**SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD**

<b>Name and surname</b>	<b>Position Function</b>	<b>Signature</b>
<b>Mirosław Taras</b>	President of the Management Board	.....
<b>Krystyna Borkowska</b>	Vice-President for Economic and Financial Affairs	.....
<b>Zbigniew Stopa</b>	Vice-President for Technical Affairs	.....
<b>Waldemar Bernaciak</b>	Vice-President for Commerce and Logistics	.....
<b>Janusz Chmielewski</b>	Member of the Management Board	.....