DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2010 to 30 June 2010

BOGDANKA, AUGUST 2010

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1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 Structure of the Lubelski Węgiel BOGDANKA Group

As at 30 June 2010, the Lubelski Węgiel BOGDANKA Group (hereinafter referred to as the "Group", "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. as the subsidiary undertaking.

The affiliated undertaking is EKSPERT Sp. z o.o. held in 50% by Łęczyńska Energetyka Sp. z o.o.

As at the date of submitting this Report (31 August 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 LW BOGDANKA S.A. as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2 Information on the undertakings of the Lubelski Węgiel BOGDANKA Group subject to consolidation

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged consolidated interim financial statements of the LW BOGDANKA Group for the first half of 2010 (the "Consolidated Interim Financial Statements") by the full consolidation method.
The affiliated undertaking – EKSPERT Sp. z o.o. was included in the Consolidated Interim Financial Statements of the LW BOGDANKA Group by the equity method.

1.2.1 Information on the Parent Undertaking of the Lubelski Węgiel BOGDANKA Group

<u>Parent Undertaking of the LW BOGDANKA Group:</u>

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

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
e-mail:	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 undertaking and the affiliated undertaking

Direct subsidiary undertaking:

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
e-mail:	biuro@lebog.com.pl
Industry identification number (REGON):	004164490
Tax registration number (NIP):	713-020-71-92

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

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 August 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: 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 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 takeover or sale of units of the LW BOGDANKA Group, long-term investments, and the division, restructuring and discontinuation of activities

In the first half of 2010 there were no changes in the structure of the LW BOGDANKA 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 Group due to the merger of business units, the takeover 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 Group.

2. INFORMATION ON THE COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD AND ON CHANGES THAT HAVE OCCURRED IN THEM IN THE FIRST HALF OF 2010

2.1 The Management Board

The scope of powers of the Management Board of LW BOGDANKA S.A. (the Parent Undertaking in the LW BOGDANKA Group) includes any Company business which is not the responsibility of the General Shareholders Meeting or the Supervisory Board. The Rules and Obligations of the Management Board are set out in a formal document describing its role. Individual members of the Management Board manage the areas of the Company's operations which are entrusted to them and their work is coordinated by the President of the Management Board.

Members of the Management Board shall be appointed for a joint term of office lasting three years. Members of the Management Board are appointed and removed by the Supervisory Board.

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office of the Company's Management Board:

- Mr Mirosław Taras, to the position of President of the Management Board;
- Ms Krystyna Borkowska, to the position of Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;
- Mr Zbigniew Stopa, to the position of Vice-President of the Management Board, Technical Affairs;
- Mr Waldemar Bernaciak, to the position of Vice-President of the Management Board, Trade and Logistics.

The persons indicated above were appointed with effect as of the date of the Company's Annual General Shareholders Meeting, approving the Company's financial statements for the financial year ended on 31 December 2009, therefore as of 10 June 2010.

This was announced by the Company in Current Report No. 6/2010 of 5 March 2010.

The mandates of the members of the Management Board expire on the date of the Annual General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2012, i.e. not later than 30 June 2013.

On 10 June 2010, i.e. as of the day of the Annual General Shareholders Meeting, the mandate of Mr Janusz Chmielewski, the Management Board's member elected by the employees, expired in connection with expiration of the 4th term of office of the Management Board (under Article 25.9 of the Articles of Association of LW Bogdanka S.A.).

2.2 The Supervisory Board

The Supervisory Board of LW BOGDANKA S.A. is appointed for a three-year joint term of office. The members of the Supervisory Board are appointed and removed by the General Shareholders Meeting. Two members of the Supervisory Board are elected by the Company's employees.

Supervisory Board - 7th term of office

As at the date of submitting this Report, the Supervisory Board for the 7th term has been in office.

On 10 May 2010 the Management Board of Lubelski Węgiel Bogdanka S.A. was informed about the resignation of Mr Bogdan Kowal from the position of the Supervisory Board Member. A reason for the resignation provided by Mr. Bogdan Kowal is the following: as of 1 June 2010, Mr Bogdan Kowal was appointed to a position reporting to the President of the Management Board of LW Bogdanka. 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.

This was announced by the Company in Current Report No. 16/2010 of 10 May 2010.

Until 10 June 2010, i.e. until the date of the Annual General Shareholders Meeting, the Supervisory Board was composed of:

1.	Krzysztof Maślankowski	- Chairman of the Board
2.	Grażyna Dec	- Vice-Chairman of the Board
3.	Henryk Czapla	- Member of the Board
4.	Adam Partyka	- Member of the Board
5.	Wiesław Różycki	- Member of the Board

On 9 March 2010 as a result of the disposal by the State Treasury of its majority block of shares, the Company has become a private company with a dispersed shareholding structure. As a consequence, as at the date of the Annual General Shareholders Meeting, i.e. as at 10 June 2010 new members of the Supervisory Board were appointed.

As a result of the adopted resolutions, the Annual General Shareholders Meeting of Lubelski Węgiel Bogdanka S.A.:

- dismissed Ms Grażyna Dec and Mr Krzysztof Maślankowski, Mr Henryk Czapla and Mr Wiesław Różycki from the position of members of the Supervisory Board of the Company; the reasons behind the dismissal were not specified;
- appointed to the Supervisory Board Ms Ewa Pawluczuk and Mr Eryk Karski, Mr Stefan Kawalec and Mr Andrzej Lulka;
- appointed Ms Jadwiga Kalinowska to the position of member of the Supervisory Board of the Company elected by the employees, in relation to the resignation of Mr Bogdan Kowal of the above function.

The Company informed about changes in the composition of the Supervisory Board in Current Report No. 28/2010 of 10 June 2010.

The mandates of the members of the Supervisory Board expire on the date of the Annual General Shareholders Meeting which approves the financial statements of the Company for 2011, i.e. not later than 30 June 2012.

On 6 July 2010 the newly-elected Supervisory Board held its first meeting, during which the Board established itself by means of appointing:

- the Chairman: - Mr Eryk Karski
- Vice-Chairman: - Mr Stefan Kawalec
- Secretary: - Ms Jadwiga Kalinowska.

3. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE FIRST HALF OF 2010

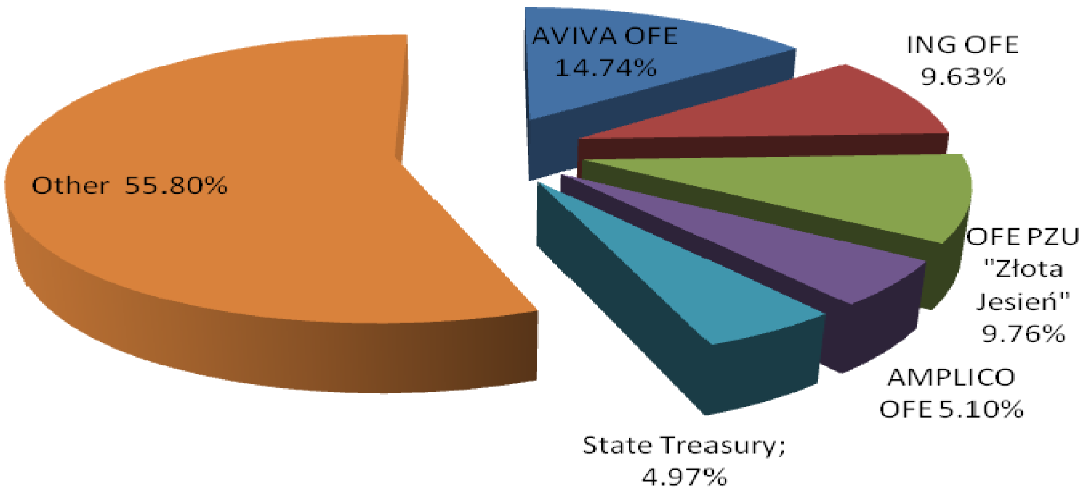
3.1 Shareholders holding at least 5% of the total number of votes at the General Shareholders Meeting (the "GSM"), either directly or indirectly through subsidiaries, as at the date of submitting the interim report, and changes in the ownership structure of substantial shareholdings in the period from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

Table 1 The shareholding structure of LW BOGDANKA S.A. as at 17 May 2010 and 31 August 2010

Shareholder	17 May 2010		31 August 2010	
	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*	5,014,644	14.74%	5,014,644	14.74%
Otwarty Fundusz Emerytalny PZU „Złota Jesień" **	3,320,377	9.76%	3,320,377	9.76%
ING Otwarty Fundusz Emerytalny***	4,424,833	13.01%	3,275,953	9.63%
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10%	1,734,194	5.10%
State Treasury*****	3,360,796	9.88%	1,691,900	4.97 %
Other	16,158,746	47.51%	18,976,522	55.80 %
Total	**34,013,590**	**100.00%**	**34,013,590**	**100.00%**

*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 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 11 August 2010, described in Current Report of LW BOGDANKA S.A. No. 35/2010 of 11 August 2010, until 21 July 2010 ING Otwarty Fundusz Emerytalny held 3,767,249 (three million seven hundred sixty-seven thousand two hundred and forty-nine) shares in the Company, representing 11.08% of the Company's share capital; as a result of the transactions as at 27 July 2010 3,623,549 (three million six hundred twenty-three thousand five hundred and forty-nine) shares were held on the Fund's securities account, representing 10.65% of the Company's share capital – this transaction was described in Current Report of LW. BOGDANKA S.A. No. 34/2010 of 28 July 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;
*****According to the Notification received on 8 June 2010, described in Current Report of LW BOGDANKA S.A. No. 22/2010 of 8 June 2010;

The shareholding structure of LW BOGDANKA S.A. as at 31 August 2010



On 16 March 2010 the Company was informed by the State Treasury of a decrease in the share of the State Treasury in the total number of votes and in the share capital of the Company.
In compliance with the aforementioned notification and in line with the orders placed by the Minister of the State Treasury, on 9 March 2010 a total of 15,882,000 (fifteen million, eight hundred and eighty-two thousand) ordinary bearer shares of the Company held by the State Treasury were sold in block transactions from the account of the State Treasury, maintained by Bank Handlowy w Warszawie S.A.

Prior to the transaction, the State Treasury held a total of 20,589,931 of the Company's shares, comprising 60.53% in the share capital and representing 20,589,931 votes, which accounted for 60.53% of the total vote at the Company.

As a result of the aforementioned transaction, the Company ceased to be a company with majority stake held by the State Treasury, which was announced in Current Report No. 8/2010 of 16 March 2010.

The State Treasury currently holds a total of 1,691,900 of the Company's shares, comprising 4.97% in the Company's share capital and representing 4.97% of the total vote at the Company.

The Company does not have any information on other shareholders which hold at least 5% of the total number of votes at the General Shareholders Meeting and had not received any such information by the date of drawing up this report.

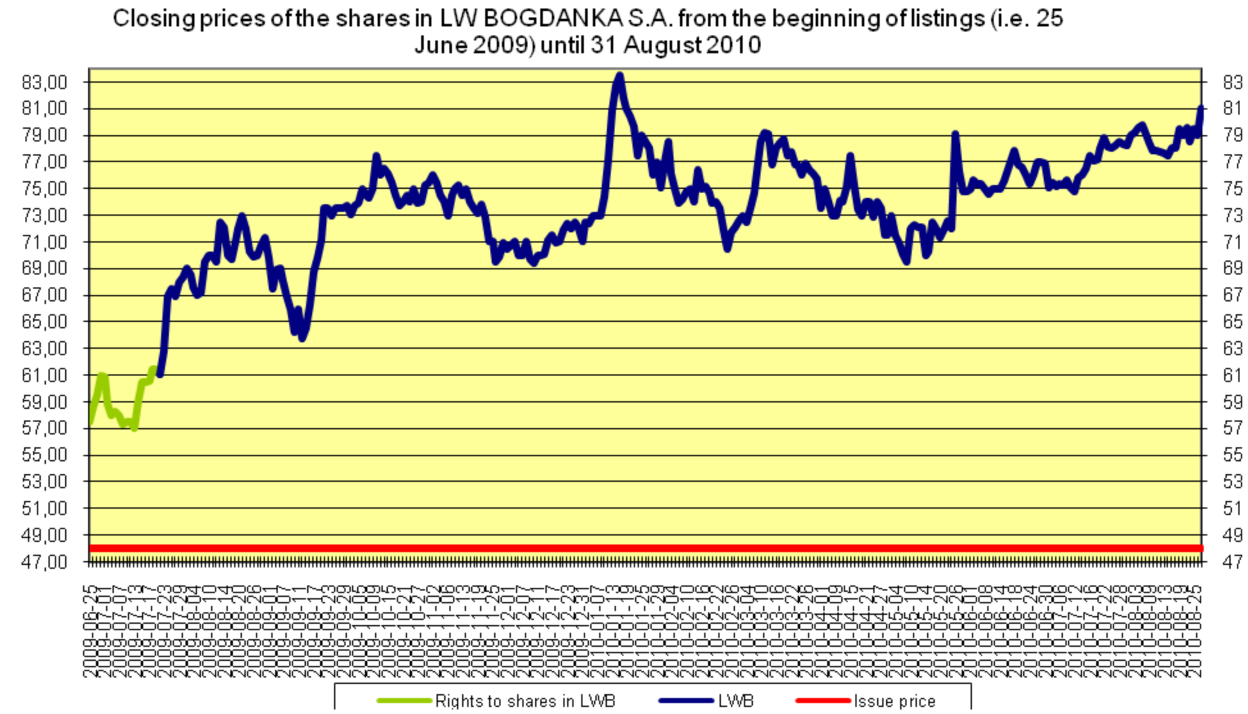
3.2 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them (options) by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the interim report, and changes in shareholdings in the period from the publication of the last quarterly report, separately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

Table 2 Number of shares held by members of the Management Board and Supervisory Board of LW BOGDANKA S.A.*

<table>
<tr><th></th><th>Number of shares at the date of publishing the Consolidated Directors' Report on Operations for the first quarter of 2010 (17 May 2010)</th><th>Number of shares as at the date of submitting the Report (31 August 2010)</th></tr>
<tr><td colspan="3">The Management Board</td></tr>
<tr><td>Mirosław Taras</td><td>2,737</td><td>2,737</td></tr>
<tr><td>Krystyna Borkowska</td><td>1,299</td><td>1,299</td></tr>
<tr><td>Zbigniew Stopa</td><td>3,834</td><td>3,834</td></tr>
<tr><td>Waldemar Bernaciak</td><td>2,162</td><td>2,162</td></tr>
<tr><td>Janusz Chmielewski</td><td>6,153</td><td>Not applicable</td></tr>
<tr><td colspan="3">The Supervisory Board in office until the Annual General Shareholders Meeting held on 10 June 2010</td></tr>
<tr><td>Krzysztof Maślankowski</td><td>0</td><td rowspan="6">Not applicable</td></tr>
<tr><td>Grażyna Dec</td><td>0</td></tr>
<tr><td>Henryk Czapla</td><td>0</td></tr>
<tr><td>Wiesław Różycki</td><td>0</td></tr>
<tr><td>Bogdan Kowal</td><td>3,049</td></tr>
<tr><td>Adam Partyka</td><td>1,024</td></tr>
<tr><td colspan="3">The Supervisory Board appointed at the Annual General Shareholders Meeting held on 10 June 2010</td></tr>
<tr><td>Eryk Karski</td><td rowspan="6">Not applicable</td><td>0</td></tr>
<tr><td>Andrzej Lulek</td><td>0</td></tr>
<tr><td>Ewa Pawluczuk</td><td>0</td></tr>
<tr><td>Stefan Kawalec</td><td>0</td></tr>
<tr><td>Jadwiga Kalinowska</td><td>1,024</td></tr>
<tr><td>Adam Partyka</td><td>1,024</td></tr>
<tr><td>Total</td><td>20,258</td><td>12,080</td></tr>
</table>

*changes in the composition of the Management Board and the Supervisory Board were described in item 2 of this Report.

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



4. PRINCIPLES OF DRAWING UP THE ABRIDGED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Company draws up its financial statements on the basis of the International Financial Reporting Standards. Those standards, referred to jointly as the International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The abridged consolidated interim financial statements of the LW BOGDANKA Group for the first half of 2010 were drawn up in accordance with International Accounting Standard 34 – "Interim Financial Reporting", applying the same accounting standards for the current and comparable period.

The Group's abridged consolidated interim financial statements were drawn up in accordance with the historical cost principle, taking into account a valuation at fair value of certain tangible fixed assets in connection with the adoption of fair value as a presumed cost, which was carried out on the date of the transition to the IFRS, i.e. 1 January 2005.

Drawing up the abridged consolidated interim financial statements in accordance with IAS 34 requires the use of certain significant accounting estimates. It also requires that the Management Board exercise its own judgement when applying the accounting principles adopted by the Group. The main estimates and judgements have not changed since the publication of the annual consolidated financial statements for 2009.

5. ANALYSIS OF AND INFORMATION ON THE BASIC FINANCIAL VALUES DISCLOSED IN THE FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE FIRST HALF OF 2010, I.E. FROM 1 JANUARY 2010 TO 30 JUNE 2010

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

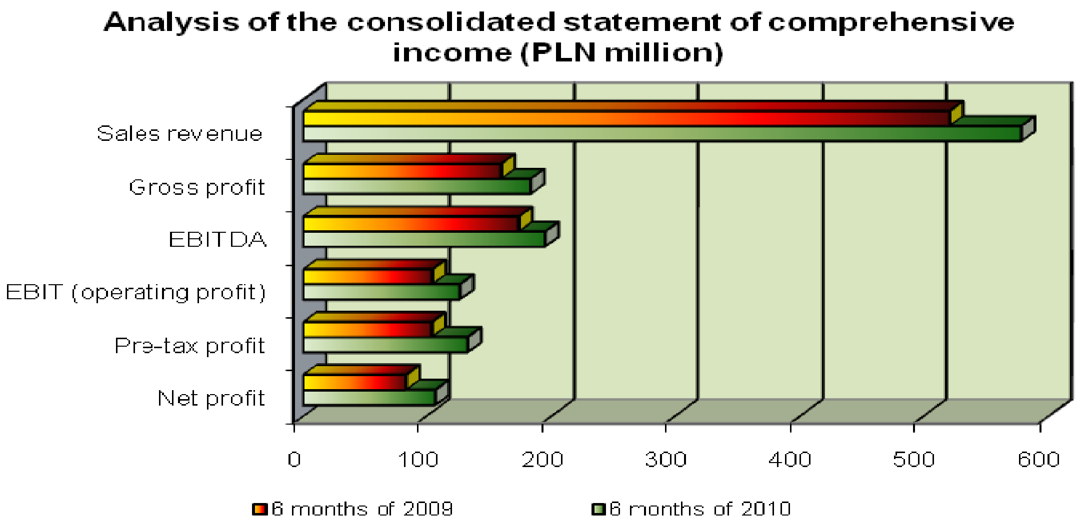
5.1 Selected financial information

Table 3 Selected financial information of the LW BOGDANKA Group (in PLN '000 unless indicated otherwise)

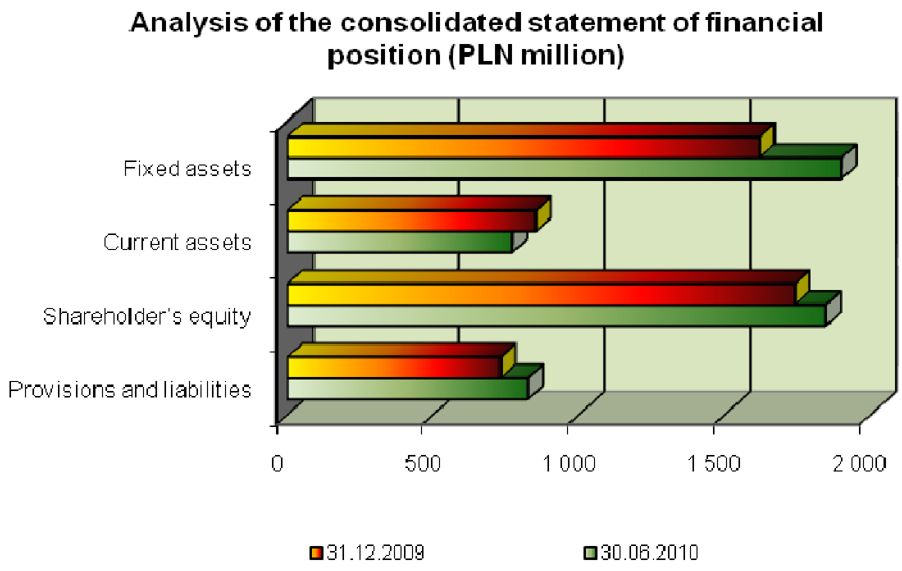
Item	6 months of 2010	6 months of 2009	Change (%) (2010/2009)
Sales revenue	578,099	520,795	11.00%
Gross profit	183,103	159,620	14.71%
EBITDA	194,709	173,695	12.10%
EBIT (Operating profit)	126,638	104,546	21.13%
Gross profit	132,819	104,233	27.43%
Net profit	106,920	83,538	27.99%
Operating cash flow	160,393	160,203	0.12%
Investing cash flow	-264,882	-163,453	62.05%
Financing cash flow		163,340	-100.00%

Item	30 Jun. 2010	31 Dec. 2009	Change (%) (2010/2009)
Fixed assets	1,899,369	1,617,528	17.42%
Current assets	771,001	852,286	-9.54%
Shareholders' equity	1,845,817	1,738,897	6.15%
Total liabilities	824,553	730,917	12.81%

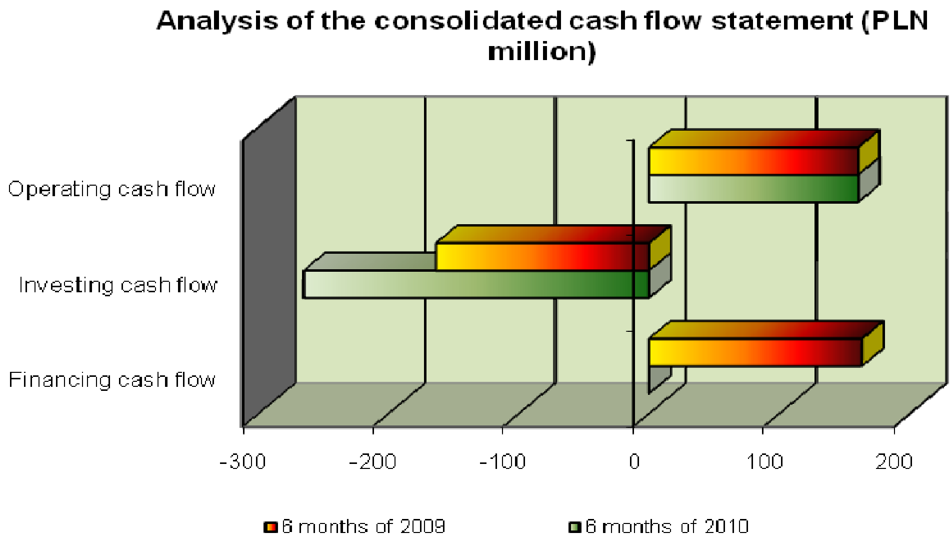
In the first half of 2010, the LW BOGDANKA Group recorded a 21.13% increase in operating profits compared to the same period of the previous year. The Group's operating profit increased from PLN 104.55 million to PLN 126.64 million. This was primarily due to an 11.00% increase in the Group's revenue on sales. The value of EBITDA (operating profit increased by the depreciation/amortisation amount) increased in the corresponding period by 12.10% to the amount of PLN 194.71 million.



The balance-sheet total as at 30 June 2010 presented in the Consolidated Financial Statements increased as compared to the financial situation statements presented at the end of 2009 by PLN 200,566,000, from PLN 2,469,814,000 to PLN 2,670,370,000. On the asset side there was an increase in tangible fixed assets, with a simultaneous decrease of the value of current assets. On the equity and liabilities side there was an increase in both shareholders' equity, and borrowed capital involved in financing the Group.



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 primarily due to investments made in tangible fixed assets in a total amount of PLN 275.2 million, primarily in connection with the pursued development strategy assuming the extension of the Stefanów Field.



5.2 Information on the current financial position of the LW BOGDANKA Group

Coal production and sales

In the first half 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, as presented in the table below.

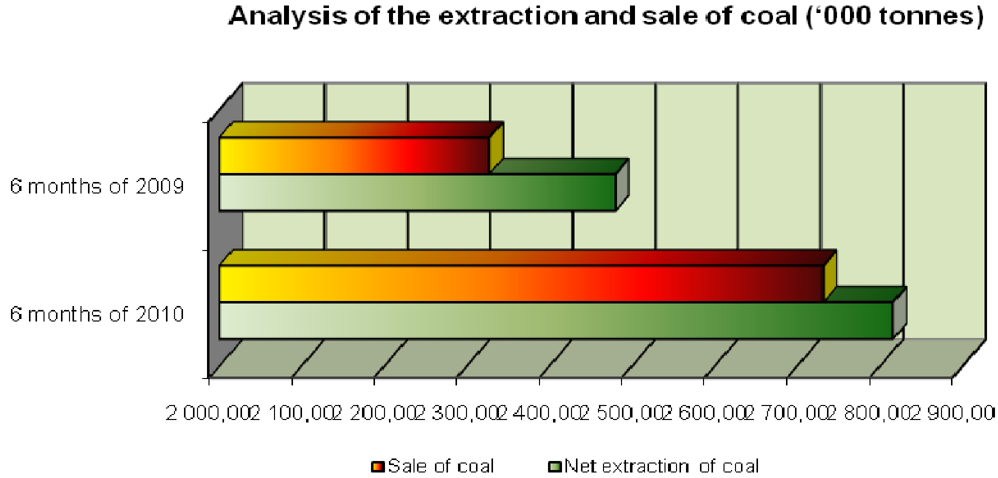
Table 4 Production capacity of LW BOGDANKA in 1H 2010 and 1H 2009 (in '000 tonnes)

6 months of 2010	6 months of 2009	Change (%) (2010/2009)
2,815.86	2,479.80	13.55%

During the first half 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 1H 2009). This was attributable to introduction of longwall coal ploughing technology and 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 5 Sale of coal of LW BOGDANKA for 1H 2010 and 1H 2009 ('000 tonnes)

6 months of 2010	6 months of 2009	Change (%) (2010/2009)
2,731.57	2,327.15	17.38%

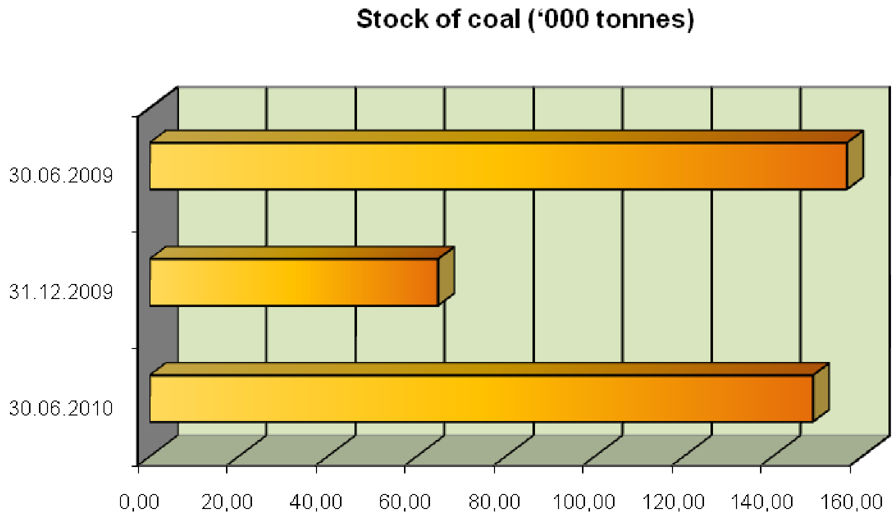


Stocks

The level of stocks of coal held by the Company as at 30 June 2010 amounted to 149,024.04 tonnes (which constituted an increase by 84,239.40 tonnes relative to the level as of 31 December 2009 and a decrease by 7,637.23 tonnes relative to 30 June 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 6 Stock of coal

Item	30 Jun. 2010	31 Dec. 2009	30 Jun. 2009	Change (%) (30 Jun. 2010/31 Dec. 2009)	Change (%) (30 Jun. 2010/30 Jun. 2009)
Stock of coal	149,024.04	64,784.64	156,661.27	130.03%	-4.87%



Sales revenue

During the first half of 2010, LW BOGDANKA Group's revenue on sales was higher by 11.00% than revenue on sales achieved in the first half of 2009. The recorded growth in revenue was attributable to an increase in revenue in two out of four defined groups/types of activity.

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 12.04% compared to the same period of 2009. This increase was mostly the result of a 17.38% rise in the quantity of the coal sold. The revenue on sale of goods and materials increased in the period in question by 132.08%, from PLN 1,702,000 to PLN 3,950,000. Sales revenue from ceramics and from other activities were lower than in the first half of 2009. The largest decrease was recorded in sales of ceramics (-38.21%), resulting from seasonal economic slowdown in the construction market and from harsh winter conditions, which rendered construction work more difficult (the effects of Q1 are visible through the entire six months).

The main source of sales revenue for the LW BOGDANKA Group in the first half of 2010 (as well as in the first half of 2009) was production and sale of power coal. From 1 January to 30 June 2010, sales of power coal accounted for 96.86% of the LW BOGDANKA Group's sales revenue (95.95% in the same period of 2009). Most (approx. 89%) 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., 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 1.85% in the first half of 2010 and 2.62% in the first half of 2009.

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

Item	6 months of 2010	6 months of 2009	Change (%) (2010/2009)
Sales of coal	559,914	499,737	12.04%
Sales of ceramics	3,535	5,721	-38.21%
Other activities	10,700	13,635	-21.53%
Sales of goods and materials	3,950	1,702	132.08%
Total revenue on sales	**578,099**	**520,795**	**11.00%**

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

Item	6 months of 2010	% share	6 months of 2009	% share
Sales of coal	559,914	96.86%	499,737	95.95%
Sales of ceramics	3,535	0.61%	5,721	1.10%
Other activities	10,700	1.85%	13,635	2.62%
Sales of goods and materials	3,950	0.68%	1,702	0.33%
Total revenue on sales	**578,099**	**100.00%**	**520,795**	**100.00%**

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 did not exceed 0.1%.

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

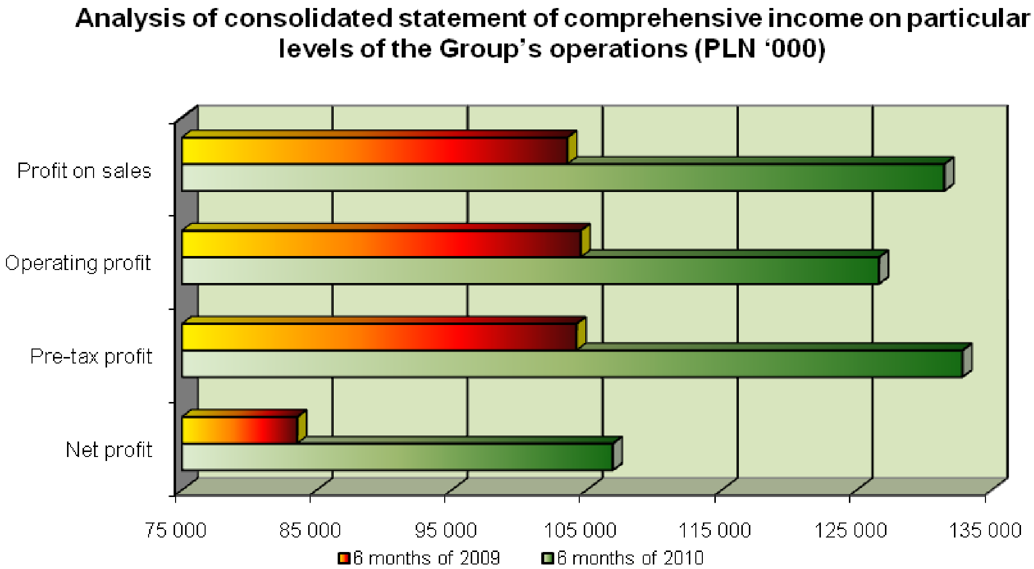
Item	6 months of 2010	% share	6 months of 2009	% share
Domestic sales	577,695	99.93%	520,524	99.95%
Foreign sales	404	0.07%	271	0.05%
Total revenue on sales	**578,099**	**100.00%**	**520,795**	**100.00%**

Consolidated Statement of Comprehensive Income

In the first six months of 2010, the LW BOGDANKA Group's sales revenue grew, compared to the same period of the previous year, at a rate faster than the cost of the products, goods and materials sold together with selling costs and administrative costs (up by 11.00% and 7.04%, respectively). This increase in costs and revenue led to the profit on sales increasing by 26.96%, or PLN 131,482,000, in the first half of 2010 compared to PLN 103,558,000 in the first half of 2009.

Table 10 Selected items of the consolidated statement of comprehensive income of the LW BOGDANKA Group (PLN '000)

Item	6 months of 2010	6 months of 2009	Change (%) (2010/2009)
Sales revenue	578,099	520,795	11.00%
Cost of products, goods and materials sold, cost of sales, administrative expenses	446,617	417,237	7.04%
Profit on sales	**131,482**	**103,558**	**26.96%**
Other income	2,251	2,569	-12.38%
Other expenses	1,745	1,104	58.06%
Other net profit/loss	-5,350	-477	1021.59%
Operating profit	**126,638**	**104,546**	**21.13%**
Financial income	12,869	4,830	166.44%
Financial expenses	6,664	5,535	20.40%
- share in (losses)/profits of affiliated undertakings	-24	392	-106.12%
Pre-tax profit	**132,819**	**104,233**	**27.43%**
Income tax	25,899	20,695	25.15%
Net profit	**106,920**	**83,538**	**27.99%**
- attributable to shareholders of the Company	106,208	83,413	27.33%



<u>Other income</u>

For 6 months of 2010, other operating revenues amounted to PLN 2,251,000 compared to PLN 2,569,000 for the same period of the previous year – this means a decrease in their value by 12.38%. The above item consists primarily of released provisions and received compensations, which in 2010 were lower than in the same period of the previous year.

<u>Other expenses</u>

For six months of 2010, other operating expenses amounted to PLN 1,745,000 compared to PLN 1,104,000 incurred in the same period of the previous year – which means an increase in their value by 58.06%. In the periods under analysis, the value of cash donations decreased, while simultaneously the value of created special-purpose provisions increased.

<u>Other net profit/loss</u>

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 126,638,000 (for the first half of 2010) as compared to PLN 104,546,000 (for the first half of 2009).

Financial income
In the first half of 2010, the Group obtained financial income of PLN 12,869,000, compared to PLN 4,830,000 in the previous year (an increase by 166,44%). 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 six months of 2010, financial expenses of PLN 6,664,000 were incurred, as compared to PLN 5,535,000 in the same period of the previous year. Increase in financial expenses by 20.40% 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 6 months of 2010 reaching PLN 132,819,000, compared to PLN 104,233,000 in the previous year. Pre-tax profit increased by 27.43% on a year-on-year basis.

Profitability of the Group

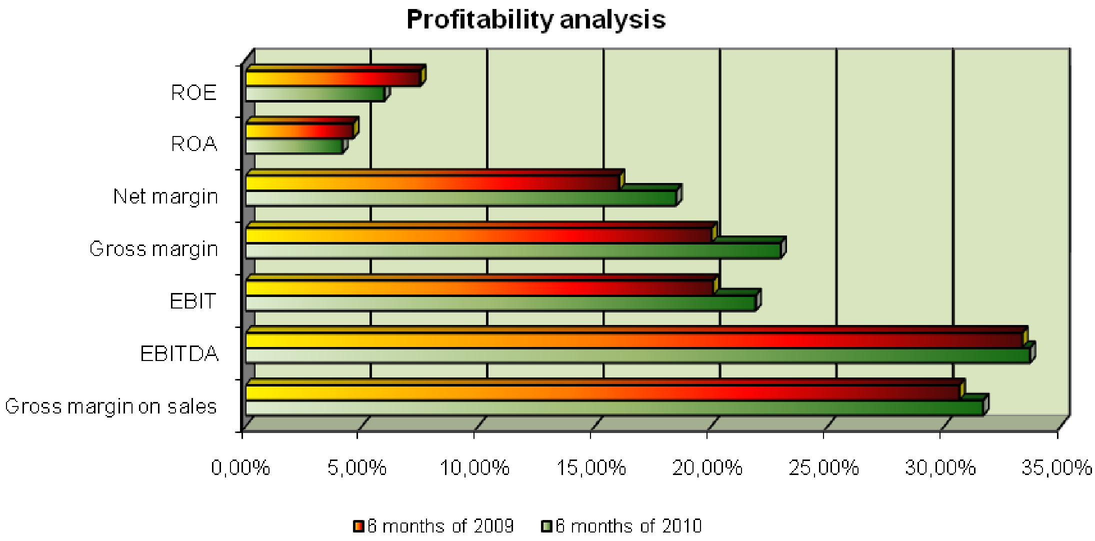
Table 11 Profitability ratios of the LW BOGDANKA Group

Item	6 months of 2010	6 months of 2009
Gross margin on sales	31.67%	30.65%
EBITDA	33.68%	33.35%
EBIT	21.91%	20.07%
Gross margin	22.98%	20.01%
Net margin	18.50%	16.04%
Return on Assets	4.16%	4.63%
Return on Equity	5.97%	7.51%

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

During the analysed six months of 2010, the profitability ratios for operations achieved higher values than in the same period of the previous year. The LW BOGDANKA Group's gross margin achieved the level of 31.67% and was higher than in the analogous period of 2009 by more than 1 p.p. The increase in that ratio resulted from a higher cost dynamics of revenues relative to the dynamics of products, goods and materials sold.

The profitability of EBIT reached 21.91%, which means an increase by approx. 2 p.p. in comparison to the same period in the previous year. Gross margin amounted to 22.98%, while net margin reached the level of 18.50%. A slight decrease was recorded in the asset margin. This was related to the investment plans which will generate profit for the Group in the subsequent years.



The debt ratios and financing structure of the LW BOGDANKA Group

Table 12 Debt ratios of the LW BOGDANKA Group

Item	30 Jun. 2010	31 Dec. 2009
Overall debt ratio	0.31	0.30
Debt to equity ratio	0.45	0.42
Fixed capital to fixed assets ratio	1.19	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 30 June 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 Interim Financial Statements, to its operations or ability to punctually pay its liabilities. In the period under analysis, the debt-equity ratio increased by 3 p.p. as a result of an increase in short-term trade creditors and other liabilities from PLN 163,204,000 to PLN 243,718,000. 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 13 Liquidity ratios of the LW BOGDANKA Group

Item	30 Jun. 2010	31 Dec. 2009
Current liquidity ratio	2.79	4.50
Quick liquidity ratio	2.57	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 Interim Financial Statements, the liquidity ratios of the LW BOGDANKA Group remained at a very high, safe level, and the LW BOGDANKA Group is not having any difficulties in settling its liabilities. Such a significant increase in the analysed liquidity ratios (both for 30 June 2010 and for 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 14 Turnover rates of the LW BOGDANKA Group (in days)

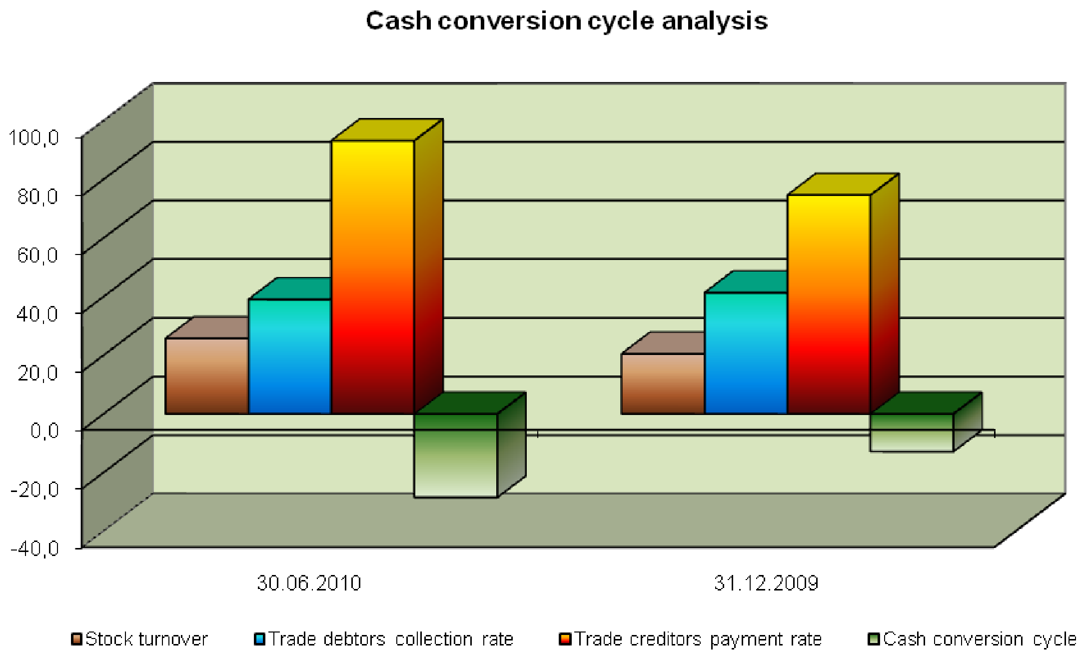
Item	30 Jun. 2010	31 Dec. 2009
Stock turnover	25.7	20.5
Trade debtors collection rate	39.0	41.3
Trade creditors payment rate	93.2	74.6
Operating cycle (1+2)	64.7	61.8
Cash conversion cycle (4-3)	-28.5	-12.8

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 30 June 2010, the value of the stock turnover ratio showed a growth trend compared to 31 December 2009 (an increase from 20.5 days to 25.7 days), which indirectly is a result of an increase in the stock of coal. Trade debtors collection rate decreased from 41.3 days to 39 days (which means that receivables are currently delivered to the Group sooner than they were in 2009). The operating cycle for current assets in the analysed period was at 64.7 days, as compared to 61.8 days as at 31 December 2009.

The trade creditors payment rate increased in the period covered by financial information from 74.6 days as at 31 December 2009 to 93.2 days as at 30 June 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 -28.5 days was achieved as at 30 June 2010 (-12.8 as at 31 December 2009), and the Group's using non-interest-bearing borrowed capital to a larger extent.



5.3 Costs of the Parent Undertaking, LW BOGDANKA S.A.

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

5.3.1 Costs by type

In the first half of 2010, LW BOGDANKA S.A.'s costs amounted to PLN 594,686,000 compared to PLN 509,606,000 in the same period of last year, which means that the costs increased by 16.70%. The above nominal increase in costs was largely the result of higher costs of materials and energy consumption as well as higher costs of outsourced services and, to a smaller degree, an increase in employee benefits costs. The result of an adjustment of costs by type by change in stocks and the cost of own work capitalised yields the costs of products sold, which in the first half of 2010 increased by 10.74% as compared to the same period in 2009.

Table 15 Costs by type of LW BOGDANKA S.A. (PLN '000)

Item	6 months of 2010	6 months of 2009	Change [%]	Change (PLN '000)
Amortisation/Depreciation	66,401	67,650	-1.85%	-1,249
Materials and energy consumption	177,210	156,513	13.22%	20,697
Outsourced services	132,955	82,256	61.64%	50,699
Employee benefits	188,702	175,035	7.81%	13,667
Entertainment and advertising expenses	8,100	6,942	16.68%	1,158
Taxes and charges	10,455	9,243	13.11%	1,212
Other expenses	10,863	11,967	-9.23%	-1,104
TOTAL COSTS BY TYPE	**594,686**	**509,606**	**16.70%**	**85,080**
Change in products	-23,190	-33,389	-30.55%	10,198
Cost of sales	571,496	476,217	20.01%	95,278
Activities for the Company's own needs	131,208	66,573	97.09%	64,635

Cost of goods and materials sold	3,764	4,217	-10.74%	-453
Cost of products sold	444,051	413,861	7.29%	30,190

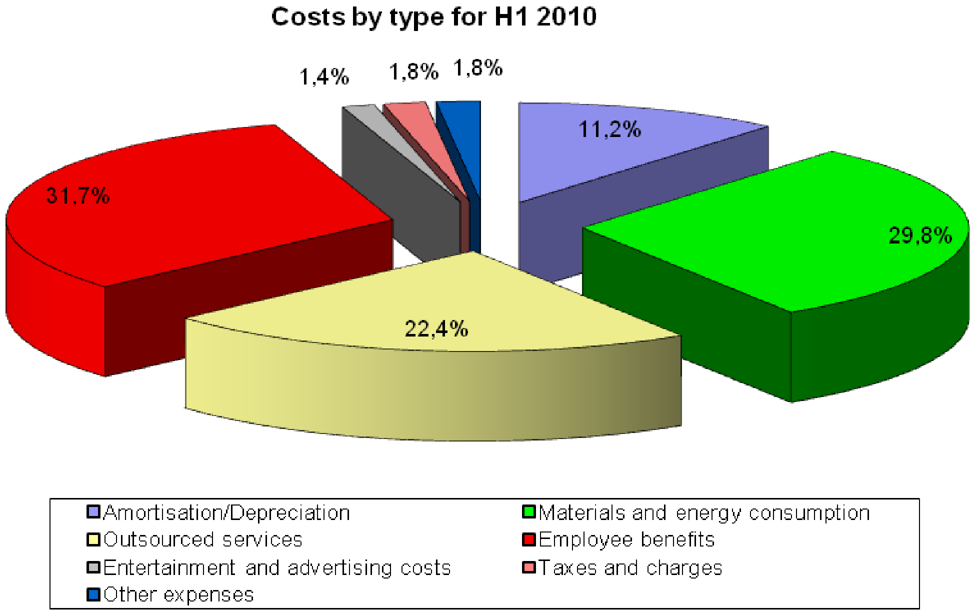
The increase in the costs of materials and energy consumption was mostly attributable to higher costs of the materials used (up by approx. 15%) and, to a smaller degree, to higher costs of energy consumption (up by approx. 7%). The increase in these cost items was the result of more preparatory and deposit-opening work connected with the Company's development strategy compared to last year, e.g. over 2,100 running metres of galleries more were prepared (up by approx. 22.6%). 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.

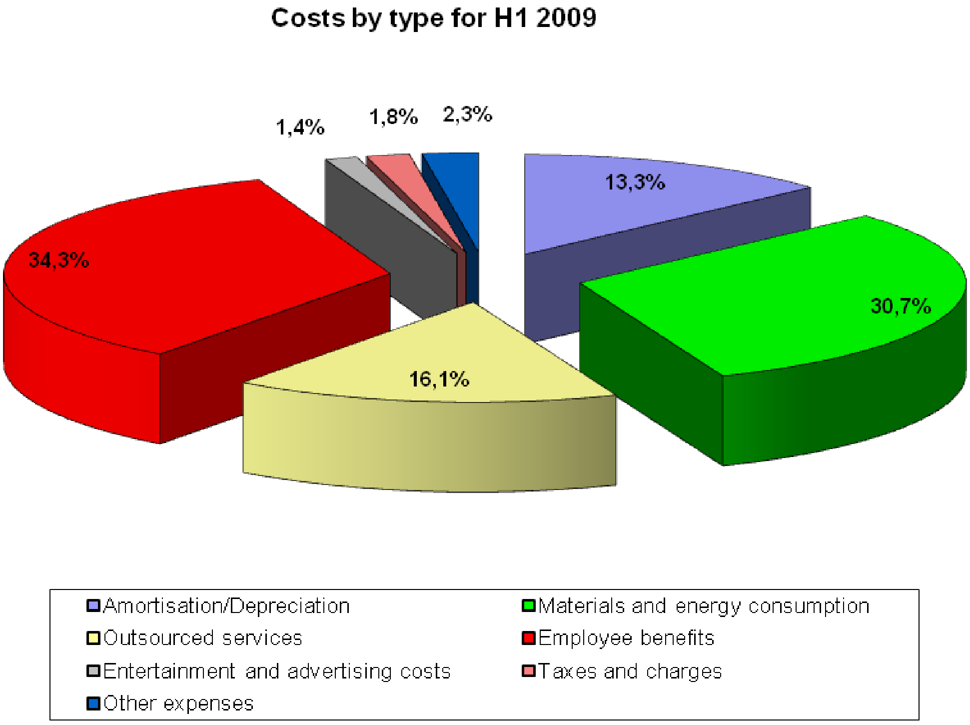
The larger scope of work in the project involving extension of the Mine by adding the Stefanów Field was also, among other things, the reason for a considerable increase in the costs of outsourced services as a result of subcontracting part of the work to external specialist companies, including Saturday/Sunday 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 presented changes in costs by type were reflected in a change of the structure of costs by type. The most significant position, as was the case in the previous year, was the employee benefits costs, even though their share decreased by approx. 3 p.p., to 31.7%. The share of material and energy consumption costs changed slightly, and remained around 30% in the analysed periods. The costs of outsourced services grew strongly and their growth was the highest, i.e. from 16.1% in the first half of 2009 to 22.4% in the first half of 2010. It should be noted that the above cost items (materials and energy, employee benefits, contracted services) account for over 83.9% of the total costs incurred by the Company.

Table 16 Structure of costs by type at LW BOGDANKA S.A.

Item	6 months of 2010	6 months of 2009	Change [%]
Amortisation/Depreciation	11.20%	13.30%	-15.89%
Materials and energy consumption	29.80%	30.70%	-2.97%
Outsourced services	22.40%	16.10%	38.51%
Employee benefits	31.70%	34.30%	-7.62%
Entertainment and advertising costs	1.40%	1.40%	-0.01%
Taxes and charges	1.80%	1.80%	-3.07%
Other expenses	1.80%	2.30%	-22.21%
TOTAL	**100.00%**	**100.00%**	





5.3.2 Costs by function

In the first half of 2010, LW BOGDANKA S.A.'s costs of sales amounted to PLN 444,051,000 compared to PLN 413,861,000 in the same period of last year, which means that the costs increased by 7.29%. This increase in the costs was largely attributable to an increase in the costs of products, goods and materials sold (up by 9.59%), a decrease in administrative costs (down by 0.26%) and a decrease in selling costs (down by 17.51%).

Table 17 Costs by function (PLN '000)

Item	6 months of 2010	6 months of 2009	Change [%]	Change (PLN '000)
Cost of products, goods and materials sold	393,285	358,855	9.59%	34,430
Selling costs	19,589	23,747	-17.51%	-4,158
Administrative costs	31,177	31,259	-0.26%	-82
Cost of sales	**444,051**	**413,861**	**7.29%**	**30,190**

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 17.38%). The increase in administrative costs was largely attributable to an increase, in the first half of 2010, in the costs of utilities, administrative and maintenance services as well as other taxes and administrative charges connected with making new facilities available for use on the Stefanów Field. A decrease in selling costs is a result of lower costs of maintenance and repair in respect of the rail transport department's assets.

The structure of the costs of sales did not change significantly. It is predominated by the costs of products sold, accounting for 86.7–88.6% of all the costs. Administrative costs are the most stable group of costs, accounting for approx. 7.02–7.55%.

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

6.1 Material investments of the LW BOGDANKA Group in the first half of 2010

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

Table 18 Key material investments of the LW BOGDANKA Group in the first half of 2010 (PLN '000)

Key material investments	Outlays incurred from 1 Jan. 2009 to 30 Jun. 2010
Construction and assembly work	158,213
Completion of deliveries and purchases of finished goods	192,118
Other	1,104
Advance payments for fixed assets under construction	39
Total	**351,474**

6.2 Capital investments of the LW BOGDANKA Group in the first half of 2010

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

7. POSITION OF THE MANAGEMENT BOARD OF LW BOGDANKA S.A. REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS FOR THE YEAR

IN QUESTION, IN LIGHT OF THE RESULTS SET OUT IN THE INTERIM REPORT IN RELATION TO THE FORECAST RESULTS

LW BOGDANKA S.A. did not publish financial results' forecasts for 2010.

8. 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 units 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, measures aimed at implementing the planned development strategy of the LW BOGDANKA Group will primarily focus on 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 to 11.1 million tonnes per annum in 2014.)

9. DESCRIPTION OF RISKS, THREATS AND FACTORS WHICH, IN THE ASSESSMENT OF LW BOGDANKA S.A., WILL AFFECT THE RESULTS ACHIEVED BY THE COMPANY AND ITS GROUP WITHIN AT LEAST THE FOLLOWING SIX MONTHS PERIOD

9.1 Risk associated with the Company's market environment

9.1.1 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.

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

The plans of the Ministry of Economy and the Ministry of State Treasury concerning the enterprises operating in the hard coal mining and power sector are an important factor influencing the LW BOGDANKA Group's market position. Those plans are set forth in particular in the following 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 400 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 accordance with Article 2.2 of the Regulation of the Minister of Economy on a budget subsidy to co-finance an initial investment of 10 June 2010, a mine may be granted a subsidy for initial investment commenced after 1 January 2010. As a result, the Company may only be able to receive little resources.

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

The levels of prices of raw materials for power production, 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 Group in the first half of 2010 and after the balance-sheet date is presented in section 13.1 of the Report.

9.1.4 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.

The most important natural threats occurring in the mine include:

- coal dust explosion threat - class "b";
- fire threat – IV self-combustion group (on a five-grade scale);
- water threat – category I and II (on a three-grade scale).

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 in the future.

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.

9.1.5 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 only slightly affected by a change in the EUR exchange rate.

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

9.2 Risk directly associated with the Group's operations

9.2.1 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.

9.2.2 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.

9.2.3 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.

9.2.4 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.

9.2.5 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 Kazachstan).

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.

9.2.6 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.

9.2.7 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 public utilities contracts. The way the Public Procurements 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.

9.2.8 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.

9.3 Risk factors associated with proceedings and legal environment

9.3.1 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.

9.3.2 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.

9.3.3 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.

9.3.4 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 raw material other than hard coal within the next 10 years. However, it is expected that the probability of a decrease in demand for coal will increase in subsequent years.

The Company currently has long-term contracts which secure it from the risk of a change during the next few years. Poland's long-term power production policy up to 2030 assumes that power production based on hard coal will be maintained.

The Company is taking measures aimed at further long-term securing of its provision of coal for commercial power production, relating to existing power units within the area of its operations. It is also taking action to increase the use of hard coal in Poland, which involves the introduction of a coal gasification installation, as well as monitoring the possibility of introducing an installation for retaining and storing CO2 in commercial power production.

9.3.5 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by the Company (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).

Sales agreements do not currently refer to any market indices, but there is an increasing tendency to adapt contracts with customers in line with market conditions. It is expected that within a few years there will be no more agreements which do not contain a reference to the market.

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

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

– securing commercial contracts relating to the sale of its products with an option to renegotiate the prices depending on market changes that may occur;

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

10. 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 Group for the first half 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.

11. RELATED PARTY TRANSACTIONS

In the first half of 2010, the Company and its subsidiaries did not conclude any significant transactions with affiliated entities which were individually or jointly significant and were concluded on terms other than market terms.

12. 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 30 June 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.

13. 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

13.1 Significant agreements

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

On 15 January 2010 the Company and Elektrownia Połaniec S.A. concluded an Annex to the Long-Term Agreement on Sale of Power Coal, concluded on 30 October 2007 and described in the Issue Prospectus in section 8.6.3.2 (the Agreement).

The Annex will bind upon the parties from 1 January 2010 to 31 December 2010. It defines the volume of supplies of the power coal, its prices as well as the schedule of quarterly supplies. 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.

The value of agreements concluded with Elektrownia Połaniec Spółka Akcyjna - GDF SUEZ ENERGIA POLSKA Group (Elektrownia Połaniec, the power plant), with registered office in Zawada 26, 28-230 Połaniec, since 22 June 2009, i.e. from the date of admission of the Company's securities to stock exchange trading, until 15 January 2010 has amounted to PLN 331.78 million net.

The signing of the aforementioned Annex was announced by the Company in Current Report No. 2/2010 of 15 January 2010.

13.1.2 Conclusion of a significant agreement with Elektrownia Kozienice S.A.

On 4 March 2010 the Company concluded a new Long-Term Agreement on the supply of power coal with Elektrownia Kozienice S.A. with registered office in Świerże Górne. Estimated net value of the concluded Agreement according to supply prices in the current year accounts for PLN 10,432 million.

Long-Term Agreement on the supply of power coal (the Agreement) for the purposes of the existing power units of Elektrownia Kozienice S.A. was concluded for the period from 4 March 2010 to 31 December 2025. The supply of power coal will commence in the first quarter of 2011, once the supply resulting from the currently binding long-term agreement is completed.

The Agreement provides for concluding annual agreements specifying: volume, supply schedule, supply prices, other rules governing logistics and supply settlements during the term of the Agreement.

The Agreement provides for a two-year notice period for the termination of the agreement and liquidated damages for failure to collect or supply the volume of coal specified in the supply schedule in the amount of 20% of the value of coal which has not been collected or supplied. Each of the Parties has the right to claim supplementary damages on general terms if the liquidated damages are insufficient to cover the value of the incurred damage.

On 5 March 2010 the Company published Current Report No. 5/2010 which specified the details of the aforementioned Agreement.

13.1.3 Transactions with Huta Łabędy S.A. - value of a significant agreement

From 22 June 2009, i.e. from the date of admission of the Company's securities to public trading, until 22 April 2010, the net value of the agreements concluded by and between the Company and Huta Łabędy S.A. ("Huta Łabędy", the "Supplier") with registered office in Gliwice has amounted to PLN 183.7 million.

The agreement of the highest value was the one signed on 22 April 2010 (the "Agreement") by and between LW Bogdanka S.A. and Huta Łabędy the subject of which is the supply of gallery casings made of steel with superior mechanical properties with the use of section V-32 and V-36.

The net value of the Agreement amounts to PLN 113,750,000.00. The agreement will be performed in stages from the date of its conclusion until 31 December 2011.

The Agreement provides for the following liquidated damages:

1. The Company is entitled to charge the Supplier with liquidated damages in the amount of 0.1% of the net value of the undelivered volume, if the Supplier defaults on the time limits specified in particular periodic orders.
2. The Company is entitled to charge the Supplier with liquidated damages in the amount of 0.1% of the net value of the entire periodic order, if the delay exceeds 21 days.
3. In the event of termination of the Agreement by the Company due to reasons attributable to the Supplier, the Supplier shall be obliged to pay for the benefit of the Company liquidated damages in the amount of 10% of the maximum value of the Agreement. The Company is entitled to exercise the abovementioned rights, irrespective of the right to charge the Supplier with liquidated damages specified in Paragraphs 1 and 2.

This was announced by the Company in Current Report No. 14/2010 of 22 April 2010.

13.1.4 Signing a significant agreement with the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

On 29 June 2010 an agreement was signed between the Company and the consortium of Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. (the "Contractor").

The net value of the agreement amounts to PLN 186,761,899.36, and its subject matter is the development of the Mechanical Coal Processing Plant of LW Bogdanka S.A., comprising the drawing of detailed designs, construction of facilities, supply of machinery and equipment, installation at the construction site, commissioning, machinery and equipment start-up and obtaining the permit for use.

The time limit for the performance of the Agreement is 18 months from the date thereof.

The Agreement provides for the following liquidated damages:

1. The Contractor agrees to pay to the Client liquidated damages for any delay in the performance of the subject matter of the Agreement with respect to the time limit provided for therein, caused by reasons attributable to the Contractor, in the amount of 0.05% of the net value of the maximum remuneration per each commenced day of delay;
2. In the event of termination of the Agreement by the Client due to reasons attributable to the Contractor, the Client shall be entitled to charge the Contractor with liquidated damages in the amount of 10% of the net value of the maximum remuneration specified in the Agreement.
3. The Contractor agrees to pay the Client liquidated damages for any delay caused by reasons attributable to the Contractor, delay in remedying Faults discovered during the Technical Acceptance of the Facilities or upon Final Acceptance of the Subject Matter of the Agreement as well as during the warranty and/or guarantee (*gwarancji/rękojmi*) period - in the amount of 0.02% of the net value of the maximum remuneration specified in the Agreement per each commenced day of delay with respect to the dates of remedying the Faults as set out in the Agreement or defined by the Client pursuant to the Agreement.
4. In the event of termination of the Agreement by the Contractor for reasons attributable to the Client, the Contractor shall be entitled to charge the Client with the liquidated damages in the amount of 10% of the net value of the maximum remuneration specified in the Agreement.
5. In the event that the incurred damage exceeds the value of the liquidated damages and in other cases of non-performance or undue performance of the Agreement, the Parties may seek redress on general terms resulting from the Civil Code. The Client is entitled to

concurrently demand liquidated damages specified in sections 1 – 3 of this paragraph. Termination of the Agreement by any of the Parties shall not deprive the Client of the right to charge the Contractor with liquidated damages on the grounds stated above.

Conclusion of the aforementioned Agreement was announced by the Company in Current Report No. 33/2010 of 29 June 2010.

13.2 An agreement signed by the subsidiary Łęczyńska Energetyka Sp. z o.o.

In April 2010, an agreement was concluded by and between Łęczyńska Energetyka Sp. z o.o. and Omega Sp. z o.o. with registered office in Głogów on a "turnkey" design for and implementing fume desulphurisation and dust extraction installations for the existing water heaters installed in the heat-generating plant in Bogdanka. Gross value of the agreement amounts to PLN 13,298,000. The aim of the investment is to comply with the binding environmental protection standards as regards protecting the air from pollution.

13.3 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 half of 2010, the Company used a total of PLN 58,988,000 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.

13.4 Free of charge shares for eligible employees

Due to the fact that LW BOGDANKA S.A. was created as a result of the restructuring of a state enterprise into a joint stock company, it is subject to the provisions of the Act on Commercialisation and Privatisation. In accordance with Article 36 of the Act on Commercialisation and Privatisation as well as on the basis of Article 17 of the Company's Articles of Association, eligible employees shall have the right to acquire, free of charge, up to 15% of shares held by the State Treasury as at the date of the Company's registration, i.e. 3,243,000 (three million two hundred and forty-three thousand) Company's Series B registered Shares.

Eligible employees may exercise the aforementioned right, provided that within 6 months from the date of the Company's registration, they submit a written statement on the intention to acquire the shares. Failure to submit the statement within the aforementioned time limit led to the loss of the right to acquire the shares free of charge. In case of the Company, the aforementioned six-month time limit commenced on the date when the Act became effective. Therefore, in compliance with Article 77 of the Act on Commercialisation and Privatisation, the six-month period lapsed on 8 October 1997.

Lists of the eligible employees were created at the Company, enumerating those who submitted the statements on the intention to acquire the shares. Written complaints issued by the employees were also considered. The list was created on 22 October 1997.

The transaction of disposal of 1,689,939 shares of LW BOGDANKA S.A. effected by the State Treasury on 8 December 2009 pursuant to general rules, became a gateway for the commencement of the process of making the shares of LW BOGDANKA S.A. available free of charge to eligible employees pursuant to the aforementioned Act on Commercialisation and Privatisation as well as the Regulation of the Minister of the State Treasury of 29 January 2003 on detailed rules of dividing eligible employees into groups, determining the number of shares available for each of these groups as well as acquiring the shares by the eligible employees (Dz.U.03.35.303).

The list of the eligible employees, including their period of employment in the state-owned company under commercialisation, its predecessor and the Company as well as the total period of employment in these entities, was presented in the Company's registered office on 29 December 2009.

Moreover, LW BOGDANKA S.A. enables the persons eligible to acquire the shares free of charge to check via the Internet their period of employment in LW BOGDANKA S.A. (and its predecessor) and the total period of employment, as well as the number of allocated shares by means of logging on to the Corporate service at the Company's website, and entering the "Akcje pracownicze" tab. Up-to-date information about the process of issue of LW Bogdanka S.A.'s shares to the eligible employees is also available through the service.

On 3 February 2010 the Management Board of LW BOGDANKA S.A. as well as the representatives of the trade unions operating at the Company signed an agreement on specifying the number of shares of LW BOGDANKA S.A. available to each of the eligible groups, divided according to the total period of employment in the state enterprise KWK Bogdanka, its predecessor as well as the Company.

On 8 February 2010 the Management Board created a final list of the eligible employees, supplemented by the data on the number of shares to which the eligible employees are entitled.

The right to acquire the Company's shares free of charge became effective upon the lapse of 3 months from the disposal by the State Treasury of the first shares pursuant to general rules, i.e. from 9 March 2010 onwards, and it may be exercised by the eligible employees until 9 March 2012. The right to acquire the shares free of charge is subject to inheritance, subject to the provisions of Article 38c)2–4 of the Act on Commercialisation and Privatisation.

Signing agreements on a free-of-charge disposal of shares has commenced on 7 April 2010.
The shares acquired free of charge by the eligible employees may not be traded until the lapse of two years, or – in the case of employees being members of the Company's Management Board - three years, from the disposal by the State Treasury of the first shares on general terms.

14. List of tables

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Name and surname	Position	Date	Signature
Mirosław Taras	**President of the Management Board**	**27 August 2010**	
Krystyna Borkowska	**Vice-President for Economic and Financial Affairs, Chief Accountant**	**27 August 2010**	
Zbigniew Stopa	**Vice-President for Technical Affairs**	**27 August 2010**	
Waldemar Bernaciak	**Vice-President for Trade and Logistics**	**27 August 2010**	

Bogdanka, 27 August 2010