



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

**for the period January 1, 2009 to June 30, 2009**

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

### 1.1 Structure of Lubelski Węgiel BOGDANKA Capital Group

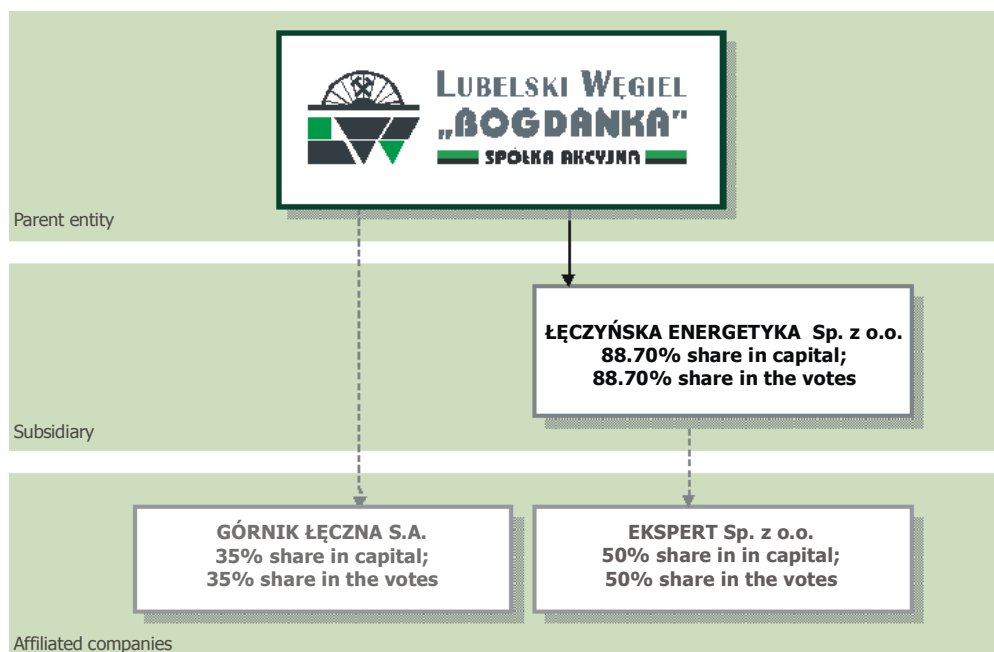
As at June 30, 2009, Lubelski Węgiel BOGDANKA Capital Group (hereinafter referred to as the "Group", "LW BOGDANKA Capital Group", "LW BOGDANKA CG" or "LW BOGDANKA Group") consists of Lubelski Węgiel BOGDANKA S.A. as the parent entity and ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. as the subsidiary.

The following companies are affiliated to the Group:

- GÓRNIK ŁĘCZNA S.A., in which LW BOGDANKA S.A. holds 35% of the shares in the share capital;
- EKSPERT Sp. z o.o. in which Łęczyńska Energetyka Sp. z o.o. holds 50% of the shares in the share capital.

As at the date of submitting this Report (August 31, 2009), 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.

#### Structure of LW BOGDANKA Capital Group (as at June 30, 2009)



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

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

The subsidiary ŁĘCZYŃSKA ENERGETYKA Sp. z o.o. was included in the abridged consolidated interim financial statements of LW BOGDANKA Capital Group for the first half of 2009 (the "abridged consolidated interim financial statements") by the full consolidation method.

The affiliated companies EKSPERT Sp. z o.o. and GÓRNIK ŁĘCZNA S.A. were included in the consolidated interim financial statements of the LW BOGDANKA Capital Group by the equity method.

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

#### **The parent entity of 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 Company's core business activities involve extracting and selling hard coal. According to the Company's statute, 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. producing 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. financial and insurance (section K);
- l. real estate activities (section L);
- m. professional, scientific and technical activities (section M);
- n. administration and support activities (section N);
- o. education (section P).

## **Supplementary activities - LW BOGDANKA S.A.**

LW BOGDANKA S.A.'s supplementary activities include manufacturing construction materials (mainly ceramic façade brick) in its own production plant, the EkoLINKIER Construction Ceramics Plant, as part of the recycling of waste rock obtained in the process of extracting hard coal.

### **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 June 30, 2009): 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.

Łęczyńska Energetyka Sp. z o.o.'s business activities involve producing heat energy, refurbishing, maintaining and assembling power production equipment, and 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 entities**

##### **GÓRNIK ŁĘCZNA S.A.**

Address: ul. Aleja Jana Pawła II 13, 21-010 Łęczna, Lublin Province

Tel.: (81) 752 17 40 ext. 10

Fax: (81) 752 17 40 ext. 10

Website: [www.gornik.leczna.pl](http://www.gornik.leczna.pl)

industry identification number (*REGON*): 060148990

tax registration number (*NIP*): 505-004-77-27

Share capital (as at June 30, 2009): PLN 1,200,000, divided into 1,200 shares at PLN 1,000.

LW BOGDANKA S.A.'s share in the share capital and votes at the General Shareholders Meeting: 35.00%

GÓRNIK ŁĘCZNA S.A.'s business activities include activities associated with sport, services, education and industrial processing.

### **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 June 30, 2009): PLN 50,000, divided into 100 shares at PLN 500.

Łęczyńska Energetyka Sp. z o.o.'s share 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 Lubelski Węgiel BOGDANKA Capital Group and in organisational and capital affiliations of the parent entity 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 LW BOGDANKA Capital Group, long-term investments, and the division, restructuring and discontinuation of activities**

In the first half of 2009 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 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 LW BOGDANKA Capital Group.

## **2. OWNERSHIP CHANGES IN LW BOGDANKA S.A. IN THE FIRST HALF OF 2009**

### **2.1 Public offering of series C shares**

The subject of the first public offer carried out by the Company in June 2009 was 11,000,000 series C shares, which were offered to investors, with the exclusion of a pre-emptive right, in the following tranches:

- Individual Investors: 1,670,000 series C shares;

- Institutional Investors: 9,000,000 series C shares;
- Employee Investors: 330,000 series C shares.

Subscriptions for series C shares of the Company were carried out from June 1 – June 18, 2009.

**Table: Key dates when the process of the first public offer of shares of LW BOGDANKA S.A. was carried out**

November 28, 2008	Submission of the Issue Prospectus to the Polish Financial Supervision Authority (FSA)
May 14, 2009	Approval of the Issue Prospectus by the FSA
May 28, 2009	Setting the price range
June 1, 2009	Opening subscriptions for series C shares
June 1-5, 2009	Accepting subscriptions for series C shares from the Individual Investors and the Employee Investors
June 5, 2009	Setting the final issue price and the final number of series C shares offered in the individual tranches
June 8-10, 2009	Accepting subscriptions from the Institutional Investors
June 18, 2009	Final deadline for closing subscriptions for series C shares
June 19, 2009	Allocation of series C shares
June 22, 2009	Admission of series A and C shares and rights to series C shares of the Company to trading on the main market of the Warsaw Stock Exchange
June 25, 2009	The Company's debut on the WSE – introduction of rights to series C shares to trading on the main market of the WSE (first quotation)

As a result of subscriptions submitted by investors, all the series C shares of the Company offered in the public offer (11,000,000 shares) were acquired and paid up.

A total of 9,985 investors submitted valid subscriptions for the shares being the subject of the public offer. As a result of the allocation, the following numbers of buyers acquired series C shares of the Company in the individual investment tranches of the public offer:

- in the Individual Investors: 7,828 investors;
- in the Institutional Investors: 417 investors;
- in the Employee Investors: 1,740 investors.

The number of shares for which subscriptions were submitted in individual investment tranches amounted to:

- the Individual Investors: 14,849,746 series C shares (1,670,000 series C shares were acquired by the Individual Investors – the rate of reduction of submitted subscriptions amounted to 88.75%);
- the Institutional Investors: 9,000,000 series C shares (9,000,000 series C shares were acquired by the Institutional Investors);
- the Employee Investors: 335,480 series C shares (330,000 series C shares were acquired by the Employee Investors – the rate of reduction of submitted subscriptions amounted to 2.99%).

The issue price of shares in the public offering was set at PLN 48 per share (the par value of a share amounts to PLN 5). In connection with the issue of series C shares, the Company obtained proceeds of PLN 528,000,000 (after taking the costs of the issue into account, LW BOGDANKA S.A.'s receipts amounted to PLN 521,051,000).



As a result of carrying out the first public offer, the Company's share capital was increased from PLN 115,067,950 to PLN 170,067,950 (i.e. by PLN 55,000,000).

The first quotation of rights to shares of the Company on the Warsaw Stock Exchange (the "WSE") took place on June 25, 2009.

As at the date of submitting this Report, due to the registration by the District Court in Lublin, XI Commercial Division of the National Court Register, on July 10, 2009, of an increase in the Company's share capital by way of the public offer of series C shares, the Company's share capital amounts to PLN 170,067,950, divided into 34,013,590 shares with a par value of PLN 5 (five zlotys) per share, including:

- a) 19,770,590 (nineteen million, seven hundred and seventy thousand, five hundred and ninety) series A bearer shares;
- b) 3,243,000 (three million, two hundred and forty-three thousand) series B registered shares;
- c) 11,000,000 (eleven million) series C registered shares.

## **2.2 Introduction of series C shares to trading on the WSE**

On July 17, 2009, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) adopted a resolution designating July 21, 2009 as the date of the last quotation of 11,000,000 rights to series C ordinary bearer shares of LW BOGDANKA S.A.

The Management Board of the WSE also adopted a resolution on introducing to trading on the main market of the stock exchange, by the normal procedure, the following ordinary bearer shares of LW BOGDANKA S.A.:

- a) 19,770,590 series A shares, marked with the code "PLLWBGD00016" by the National Depository of Securities (the "NDS");
- b) 11,000,000 series C shares, on the condition that on July 22, 2009 the NDS would register the series C shares and mark them with the code "PLLWBGD00016".

The registration of 11,000,000 series C shares of the Company in the National Depository of Securities took place on July 22, 2009.

The first quotation of the series C shares on the WSE occurred on July 22, 2009.

## **2.3 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 Issue Prospectus**

**Table: The shareholding structure of LW BOGDANKA S.A. as at May 15, 2009  
(publication of the Issue Prospectus)**

<b>Shareholder</b>	<b>Number of shares</b>	<b>Number of votes at the GSM</b>	<b>Share in the share capital (%)*</b>
State Treasury	22,279,870	22,279,870	96.81
Others	733,720	733,720	3.19
<b>Total</b>	<b>23,013,590</b>	<b>23,013,590</b>	<b>100.00%</b>

\* The share in the share capital corresponds to the share in the total number of votes at the GSM.

**Table: The shareholding structure of LW BOGDANKA S.A. as at August 31, 2009**

<b>Shareholder</b>	<b>Number of shares</b>	<b>Number of votes at the GSM</b>	<b>Share in the share capital (%)*</b>
State Treasury	22,279,870	22,279,870	65.50
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	2,141,231	2,141,231	6.30
Others	9,592,489	9,592,489	28.20
<b>Total</b>	<b>34,013,590</b>	<b>34,013,590</b>	<b>100.00%</b>

\* The share in the share capital corresponds to the share in the total number of votes at the GSM.

\*\*According to the notice received on July 6, 2009, described in Current Report of LW BOGDANKA S.A. No. 11/2009 – on July 6, 2009, the Management Board of the Company was notified by Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A. of a change in its holding of shares of LW BOGDANKA S.A. due to its purchases of rights to shares of the Company. After the conclusion and settlement of the above transactions, as at June 30 2009, Aviva OFE held 2,141,231 rights to shares of the Company which, after being converted into shares, constitute 6.3% of its share capital carrying an entitlement to 2,141,231 votes at the General Shareholders Meeting which, after conversion, constitutes 6.3% of the total number of votes.

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.

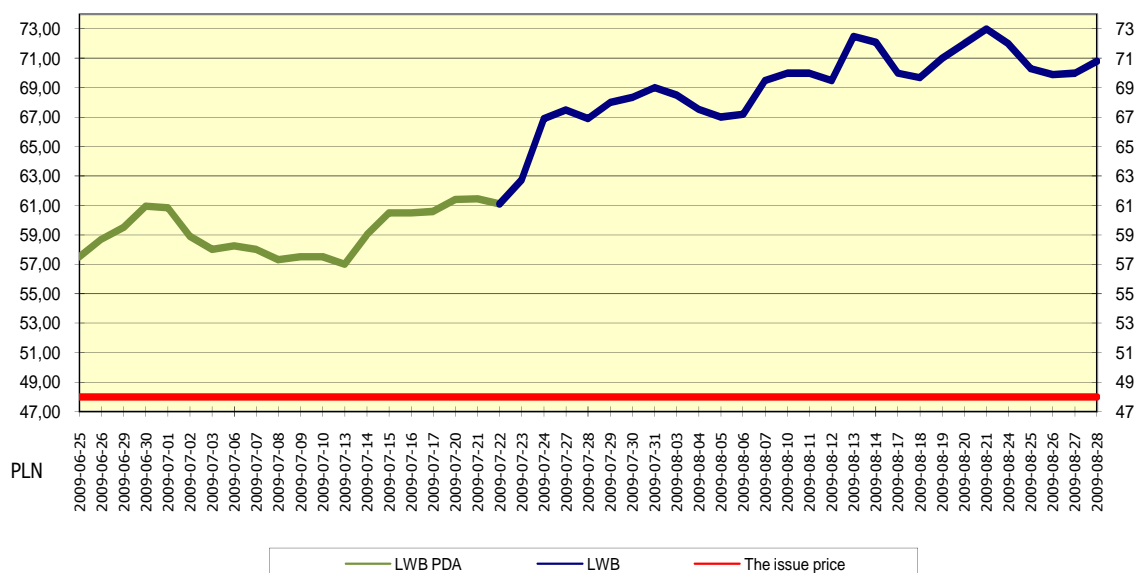
#### **2.4 Table of holdings of shares of LW BOGDANKA S.A. or entitlements to them (options) by the management and supervisory personnel of LW BOGDANKA S.A., as at the date of submitting the interim report, and changes in shareholdings in the period from the publication of the Issue Prospectus, separately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

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

	<b>Number of shares as at the date of publishing the Issue Prospectus (May 15, 2009)</b>	<b>Number of shares as at the date of submitting the report (August 31, 2009)</b>
<b>Management Board</b>		
Mirosław Taras	0	1 713
Krystyna Borkowska	10	1 299
Zbigniew Stopa	0	2 810
Waldemar Bernaciak	0	2 162
Janusz Chmielewski	0	6 000
<b>Supervisory Board</b>		
Krzysztof Maślankowski	0	0
Grażyna Dec	0	0
Henryk Czapla	0	0
Wiesław Różycki	0	0
Bogdan Kowal	0	2 025
Adam Partyka	0	270
<b>Total</b>	<b>10</b>	<b>16 279</b>

## 2.5 Price of rights to shares/shares of the Company from the date of the debut on the Warsaw Stock Exchange

Diagram - Closing prices of shares of LW BOGDANKA S.A. from the launch of quotations (i.e. June 25, 2009) to August 28, 2009



[LWB Rgts to shares; LWB; Issue price]

## 3. PRINCIPLES OF DRAWING UP THE INTERIM ABRIDGED 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 LW BOGDANKA Capital Group for the first half of 2009 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. January 1, 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 2008.

#### 4. ANALYSIS OF AND INFORMATION ON THE BASIC FINANCIAL VALUES DISCLOSED IN THE ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS OF THE LW BOGDANKA GROUP FOR THE SIX-MONTH PERIOD ENDING ON JUNE 30, 2009

All financial data and indicators have been presented on the basis of the consolidated interim financial statements of the Group, drawn up according to the International Financial Reporting Standards approved by the European Union.

##### 4.1 Selected financial information

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

Item	1st half of 2009	1st half of 2008	Change (%)
Revenue on sales	520,795	493,926	5.44%
Gross profit	159,620	117,768	35.54%
EBITDA*	173,695	137,145	26.65%
EBIT (Operating profit)	104,546	70,097	49.14%
Pre-tax profit	104,233	68,752	51.61%
Net profit for the financial year	83,538	51,981	60.71%

Item	1st half of 2009	1st half of 2008	Change (%)
Net cash flow from operating activities	160,203	160,897	-0.43%
Net cash flow from investing activities	-163,453	-161,709	1.08%
Inflows	4,181	2,841	47.17%
Outflows	-167,634	-164,550	1.87%
Net cash flow from financing activities	163,340	55,953	191.92%
Inflows	180,000	56,199	220.29%
Outflows	-16,660	-246	6,672.36%

Item	Jun. 30, 2009	Jun. 30, 2008	Change (%)
Total assets	1,954,036	1,527,575	27.92%
Fixed assets	1,496,080	1,277,494	17.11%
Current assets, including:	457,956	250,081	83.12%
Stocks	63,374	32,016	97.94%
Trade debtors and other receivables	134,214	114,290	17.43%
Overpaid income tax	404	135	199.26%
Cash and cash equivalents	259,964	103,640	150.83%
Total liabilities	843,582	515,604	63.61%
Provisions for liabilities	112,175	89,373	25.51%
Long-term liabilities (excluding provisions)	168,522	217,938	-22.67%
<i>including credit facilities and long-term loans</i>	0	65,000	-100.00%

Item	Jun. 30, 2009	Jun. 30, 2008	Change (%)
Short-term liabilities (excluding provisions)	562,885	208,293	170.24%
<i>including credit facilities and short-term loans</i>	<i>265,000</i>	<i>41,199</i>	<i>543.22%</i>
Shareholders' equity	1,110,454	1,011,971	9.73%
Share capital	246,158	246,158	0.00%
Number of shares (units)	23,013,590	2,301,359	-
Net earnings attributable to shareholders of the Company (PLN per share)*	3.62	2.26	60.18%

\* - in November 2008, shares were split in a ratio of 1:10 – earnings were calculated on the basis of the number of shares after the split

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

### Revenue on sales

The main source of revenue on sales of the LW BOGDANKA Group in the first half of 2009 (and the first half of 2008) was the production and sale of power coal. In the first half of 2009, those activities generated 95.96% of the revenue on sales generated by the LW BOGDANKA Group (compared to 96.63% in the first half of 2008). The relative decrease in the share of revenue on sales of power coal in the first half of 2009 in the revenues on total sales, relative to the first half of 2008, results from the fact that there were less sales of façade bricks in the first half of 2008 due to the fire in the Company's EkoKLINKIER Construction Ceramics Plant in September 2007.

Most (approx. 90%) coal sales 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 contracts with regular key customers of the Company (primarily Elektrownia Koźienice S.A., Elektrownia Połaniec S.A., Zakłady Azotowe Puławy S.A. and Elektrownia Ostrołęka S.A.).

The share of the Group's other areas of business activities, including but not limited to the business activities of the subsidiary Łęczyńska Energetyka Sp. z o.o., in the sales of the LW BOGDANKA Group amounted to 2.20% in the first half of 2008 and 2.62% in the first half of 2009.

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

Item	First half of 2009	share (%)	First half of 2008	share (%)
Sales of coal	499,737	95.96%	477,296	96.63%
Sales of ceramics	5,721	1.10%	1,321	0.27%
Other activities	13,635	2.62%	10,871	2.20%
Sales of goods and materials	1,702	0.33%	4,438	0.90%
<b>Total revenue on sales</b>	<b>520,795</b>	<b>100.00%</b>	<b>493,926</b>	<b>100.00%</b>

The activities of the LW BOGDANKA Group are primarily concentrated in Poland. In the first half of 2009, export sales constituted a fraction of revenues generated – their share in total revenue on sales remained unchanged and amounted to 0.05% at the end of the first half of both 2008 and 2009.

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

<b>Item</b>	<b>First half of 2009</b>	<b>share (%)</b>	<b>First half of 2008</b>	<b>share (%)</b>
Domestic sales	520,524	99.95%	493,685	99.95%
Foreign sales	271	0.05%	241	0.05%
<b>Total revenue on sales</b>	<b>520,795</b>	<b>100.00</b>	<b>493,926</b>	<b>100.00%</b>

In the first half of 2009 (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: Production capacity of LW BOGDANKA in the first half of 2009 and the first half of 2008 (in '000 tonnes)**

<b>First half of 2009</b>	<b>First half of 2008</b>	<b>First half of 2009/First half of 2008</b>
2,479.8	2,784.0	89.1 %

In the first half of 2009, extraction of commercial coal was lower relative to the first half of 2008 due to the Company exploiting coal faces in more difficult mining/geological conditions and the larger scope of preparation work and work on gaining access to deposits, which led to greater stone content in raw excavated material and a decrease in the extraction of commercial coal despite the capacity of the hoisting gear remaining constant and being used to optimum effect.

The technical indicators achieved in the first half of 2009 indicate that extraction this year will at a normal level compared to the last few years and that planned extraction and sales of 5.3 million tonnes will be achieved.

## **Stocks**

The level of stocks of coal held by the Company as at June 30, 2009 amounted to 156,661.27 tonnes (which constituted an increase of 152,650.06 tonnes relative to the level as at December 31, 2008 and of 139,577.56 tonnes relative to the first half of 2008). However, please note that this is the standard level of stocks ensuring that ongoing sales can be maintained and constituting technological operating stocks.

## **Deposit reserves**

The mining area exploited by Lubelski Węgiel Bogdanka S.A. is divided into three fields: the Bogdanka, Nadrybie and Stefanów Fields. The main shafts of the mine (including the drawing shaft) are located in the Bogdanka Field, while peripheral shafts are located in the Nadrybie and Stefanów Fields.

On April 6, 2009, LW BOGDANKA S.A. obtained a concession to mine hard coal from the Bogdanka deposits being part of the Puchaczów V mining area (seams 382, 385/2, 389 and 391), with an area of 73.3 km<sup>2</sup>, located in the districts of Cyców, Ludwin and Puchaczów in the Lublin Province. Up to that date, the Company had conducted mining operations on the basis of a concession in the Puchaczów IV area, with an area of 57 km<sup>2</sup> (seams 382 and 385/2).

**Table: Mine resources covered by the concession to mine hard coal, updated as at December 31, 2008**

<i>Reserves [mln tonnes]</i>	<i>Puchaczów IV</i>	<i>Puchaczów V – according to the new concession obtained on April 6, 2009</i>
Balance	165.9	460.8
Industrial	123.7	335.3
Recoverable	97.1	254.7

## Profitability of the Group

**Table: Profitability ratios of the LW BOGDANKA Group**

<b>Item</b>	<b>First half of 2009</b>	<b>First half of 2008</b>
Gross margin on sales	30.7%	23.8%
EBITDA	33.4%	27.8%
EBIT	20.1%	14.2%
Gross margin	20.0%	13.9%
Net margin	16.0%	10.5%
Return on Assets	4.8%	3.6%
Return on Equity	7.9%	5.3%

### *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

In the first half of 2009, the profitability ratios for the Company's business activities were at a higher level than those achieved in the first half of 2008.

In the first half of 2009, the pre-tax return on sales of the LW BOGDANKA Group was higher than in the first half of 2008, reaching 30.7%, where the costs of products sold were decreased by 3.98% and other operating costs by 90.75%.

Gross margin amounted to 20.0%, while net margin amounted to 16.0%.

The net profit of the LW BOGDANKA Group in the first half of 2009 amounted to 83.5 million and was 60.71% higher than in the first half of 2008.

## Operating earnings - EBIT

In the first half of 2009, the LW BOGDANKA Group recorded a 49.14% increase in operating profits compared to the same period of the previous year. The Group's operating profit increased from PLN

70.10 million to PLN 104.55 million, primarily due to a 5.44% increase in the Group's revenue on sales.

### Sources of capital of the LW BOGDANKA Group

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

Item	First half of 2009	First half of 2008
<b>Total long-term financing</b>	<b>0</b>	<b>35,000</b>
Increase in shareholders' equity	0	0
Contracted long-term bank loans	0	35,000
<b>Total short-term financing</b>	<b>344,384</b>	<b>184,937</b>
Cash flow from operating activities	160,203	160,897
Cash inflow from investment activities	4,181	2,841
Contracted short-term bank loans	180,000	21,199
<b>Total sources of capital</b>	<b>344,384</b>	<b>219,937</b>
Cash and cash equivalents (beginning of period)	99,874	48,499
Cash and cash equivalents (end of period)	259,964	103,640

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

Item	Jun. 30, 2009	Jun. 30, 2008
<b>Shareholders' equity</b>	<b>1 110 454</b>	<b>1 011 971</b>
<b>Third-party capital</b>	<b>843 582</b>	<b>515 604</b>
Long-term third party capital	227 270	264 529
<i>Provisions for other liabilities and encumbrances</i>	<i>58 748</i>	<i>46 591</i>
<i>Trade creditors and other liabilities</i>	<i>8 812</i>	<i>7 454</i>
<i>Credit facilities and loans</i>	<i>0</i>	<i>65,000</i>
<i>Liabilities from deferred income tax</i>	<i>55,760</i>	<i>58,371</i>
<i>Liabilities from employee benefits</i>	<i>103,950</i>	<i>87,113</i>
Long-term third-party capital	616,312	251,075
<i>Provisions for other liabilities and encumbrances</i>	<i>53,427</i>	<i>42,782</i>
<i>Credit facilities and loans</i>	<i>265,000</i>	<i>41,199</i>
<i>Trade creditors and other liabilities</i>	<i>241,613</i>	<i>152,244</i>
<i>Liabilities from current income tax</i>	<i>2,413</i>	<i>0</i>
<i>Liabilities from employee benefits</i>	<i>53,859</i>	<i>14,850</i>

In the first half of 2009, 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.

### Cash flows of the LW BOGDANKA Group

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

Item	First half of 2009	First half of 2008
Net operating cash flow	160,208	160,897



Item	First half of 2009	First half of 2008
Pre-tax profit (loss)	104,233	68,752
Total adjustments	55,975	97,783
<i>Including amortisation/depreciation</i>	<i>69,149</i>	<i>67,047</i>
Net investing cash flow	-163,453	-161,709
Inflow	4,181	2,841
Outflow	-167,634	-164,550
Net financing cash flow	163,340	55,953
Inflows	180,000	56,199
Outflow	-16,660	-246
<i>Including paid dividends</i>	<i>0</i>	<i>0</i>
<b>Total net cash flow</b>	<b>160,090</b>	<b>55,141</b>
Cash and cash equivalents (beginning of period)	99,874	48,499
<b>Cash and cash equivalents (end of period)</b>	<b>259,964</b>	<b>103,640</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 half of 2009, the LW BOGDANKA Group financed its business activities with operating cash flows, the main source of which were pre-tax earnings. The LW BOGDANKA Group also achieved a positive balance of cash flows from financing activities thanks to a short-term bank loan (in a total amount of PLN 180 million). 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 163.5 million.

The release in the first half of 2009 of the second tranche of a working capital loan in the amount of PLN 180 mln was primarily responsible for the increase in financial resources from cash flows presented in the consolidated financial statements.

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

Table: Debt rates of the LW BOGDANKA Group

Item	Jun. 30, 2009	Jun. 30, 2008
Overall debt ratio	0.43	0.34
Debt to equity ratio	0.76	0.42
Fixed capital to fixed assets ratio	0.94	0.96
Short-term debt ratio	0.32	0.16
Long-term debt ratio	0.12	0.17

*Principles for calculating the indices:*

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

In the first half of 2009, the share of liabilities in the financing of the operations of the LW BOGDANKA Group, measured by the overall debt ratio, amounted to 43% as at June 30, 2009 (compared to 34% as at June 30, 2008). 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 fulfil its obligations.

The decrease in the fixed capital to fixed assets ratio stems from investments made by the LW BOGDANKA Group in tangible fixed assets.

**Table: Liquidity indices of the LW BOGDANKA Group**

Item	Jun. 30, 2009	Jun. 30, 2008
Current liquidity ratio	2.45	1.20
Quick liquidity ratio	2.10	1.05

*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 safe level and the Group is not having any difficulties in settling its liabilities.

**Table: Turnover rates of the LW BOGDANKA Group (in days)**

	Item	First half of 2009	First half of 2008
1.	Inventory turnover	24.7	17.7
2.	Trade debtors collection rate	46.9	32.9
3.	Trade creditors payment rate	97.6	24.5
4.	Operating cycle (1+2)	71.6	50.5
5.	Cash conversion cycle (4-3)	-26.0	26.0

*Principles for calculating the indices:*

inventory 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

In the first half of 2009, the value of the inventory turnover index showed a growth trend compared to the first half of 2008 (an increase from 17.7 days to 24.7 days). The trade debtors collection rate showed a similar trend in the period being analysed.

The trade creditors payment rate increased in the period covered by financial information from 24.5 days in the first half of 2008 to 97.6 days in the first half of 2009.

As a result of the trends described above, a cash conversion cycle of 26 days was achieved.

## **Consolidated statement on total income**

**Table: Selected items of the consolidated statement on total income of the LW BOGDANKA Group**

Item	First half of 2009	First half of 2008	Change (%)
Revenue on sales	520,795	493,926	5.44%
Cost of products, goods and materials sold	361,175	376,158	-3.98%

Gross profit	159,620	117,768	35.54%
Other income	2,569	3,114	-17.50%
Other expenses	1,104	11,939	-90.75%
Net operating profit/loss	1,465	-8,825	-
Other net profit/loss	477	1,814	73.70%
Operating profit	104,546	70,097	49.14%
Financial income	4,830	2,300	110.00%
Financial expenses	5,535	3,751	47.56%
Pre-tax profits	104,233	68,752	51.61%
Income tax	20,695	16,771	23.40%
Net profit for the financial year	83,538	51,981	60.71%
- attributable to shareholders of the Company	83,413	51,924	60.64%

In the first half of 2009, revenue on sales of the LW BOGDANKA Group increased by 5.44% compared to the same period of the previous year.

The Group's result at the operating level was affected to the greatest degree by the higher gross profits resulting from the higher rate of change in revenues relative to the rate of change in costs. During the period being analysed, the cost of products, goods and materials sold amounted to PLN 361,175,000 compared to PLN 376,158,000 as at June 30, 2008.

#### Other income

For the six months of 2009, other operating revenues amounted to PLN 2,569,000 compared to PLN 3,114,000 for the same period of the previous year – this means a decrease in their value of 17.50%, which is associated with the revaluation of intangible assets (geological information) according to the amortised cost as at the balance-sheet date, i.e. June 30, 2008. As at June 30, 2008, the main element of this item was the release of provisions for disputed cases with Zakłady Azotowe Puławy S.A.

#### Other expenses

For the six months of 2009, other operating expenses amounted to PLN 1,104,000 compared to PLN 11,939,000 incurred in the same period of the previous year – this means a decrease in their value of 90.75%. The cost of interest on real estate tax relating to mining excavations in the amount of PLN 11,064,000 was charged to costs for 2008.

These values of other operating income generated and expenses incurred led to operating profit for the six months of 2009 reaching PLN 104,546,000, compared to PLN 70,097,000 for the previous year. Operating profit increased by 49.14% on a year-on-year basis.

#### Financial income

In the first half of 2009, the Group obtained financial income of PLN 4,830,000, compared to PLN 2,300,000 in the previous year (an increase of 110%). 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 the six months of 2009, financial expenses of PLN 5,535,000 were incurred, compared to PLN 3,751,000 in the previous year. The 47.56% increase in financial costs was caused by additional tranches of a bank loan being released.

These values of financial income generated and expenses incurred led to pre-tax profits for the six months of 2009 reaching PLN 104,233,000, compared to PLN 68,752,000 in the previous year. Operating profit increased by 51.61% on a year-on-year basis.

## Balance sheet

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

Item	Jun. 30, 2009	Dec. 31, 2008	Change %
<b>Assets</b>			
<b>Fixed assets</b>	1,496,080	1,386,033	7.94%
Tangible fixed assets	1,439,793	1,333,959	7.93%
Intangible fixed assets	12,993	10,141	28.12%
Investments in affiliated undertakings	400	8	4,900.00%
Trade and other receivables	348	852	-59.15%
Cash and cash equivalents	42,546	41,073	3.59%
<b>Current assets</b>	457,956	271,397	68.74%
Stocks	63,374	35,055	80.78%
Trade debtors and other receivables	134,214	135,783	-1.16%
Overpaid income tax	404	685	-41.02%
Cash and cash equivalents	259,964	99,874	160.29%
<b>TOTAL ASSETS</b>	<b>1,954,036</b>	<b>1,657,430</b>	<b>17.90%</b>
<b>Shareholders' equity</b>			
<b>Shareholders' equity attributable to shareholders of the Company</b>	<b>1,100,844</b>	<b>1,106,263</b>	<b>0.49%</b>
Ordinary shares	246,158	246,158	00.00%
Other capital	424,405	400,015	6.10%
Retained profits	430,281	460,090	-6.48%
Minority shareholdings	9,610	9,485	1.32%
<b>Total shareholders' equity</b>	<b>1,110,454</b>	<b>1,115,748</b>	<b>-0.47%</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>	<b>227,270</b>	<b>222,854</b>	<b>1.98%</b>
Deferred income tax liabilities	55,760	57,346	-2.77%
Employee benefits liabilities	103,950	101,549	2.36%
Provisions for other liabilities and charges	58,748	54,337	8.12%
Trade creditors and other liabilities	8,812	9,622	-8.42%
<b>Short-term liabilities</b>	<b>616,312</b>	<b>318,828</b>	<b>93.31%</b>
Credit facilities and loans	265,000	100,000	165.00%
Liabilities from current income tax	2,413	0	-
Liabilities from employee benefits	53,859	18,877	185.32%
Provisions for other liabilities and encumbrances	53,427	51,948	2.85%
Trade creditors and other liabilities	241,613	148,003	63.25%
<b>Total liabilities</b>	<b>843,582</b>	<b>541,682</b>	<b>55.73%</b>

Item	Jun. 30, 2009	Dec. 31, 2008	Change %
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,954,036</b>	<b>1,657,430</b>	<b>17.90%</b>

The balance-sheet total as at June 31, 2009 presented in the consolidated interim financial statements increased compared to the balance presented at the end of 2008 by PLN 296,606,000. During the period being analysed, the value of fixed assets increased by 107.94% (from PLN 1,386,033,000 to PLN 1,496,080,000). That increase resulted from the implementation of the investment programme of LW BOGDANKA Capital Group. At the same time, current assets increased by 68.74%, primarily due to an increase in cash of PLN 160,090,000, as well as an increase in stocks of materials and products of PLN 28,319,000. In total, the sum total of assets as at June 30, 2009 relative to the Opening Balance increased by 17.90%.

The increase in the items disclosed in the balance sheet on the shareholders' equity and liabilities side was caused by an increase in the following values: credit facilities and loans – by PLN 165,000,000; employee benefits liabilities – by PLN 34,982,000; and trade creditors and other liabilities – by PLN 93,610,000. The increase in employee liabilities was the result of an understanding concluded on November 27, 2008 between Lubelski Węgiel BOGDANKA S.A. and the trade union organisations operating in the Company – the "Incentive Programme" (information on the assumptions of the Programme is set out in Section 13.1 of the Report). In accordance with the provisions of the Programme, the Company designated PLN 36,000,000 for bonuses for employees and PLN 5,000,000 as a contribution to the Company Social Benefits Fund. The increase in trade liabilities disclosed in the balance sheet resulted from the purchase of services and equipment required to carry out investment tasks of LW BOGDANKA Capital Group.

### Information on the structure of assets and liabilities

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

Item	Jun. 30, 2009	Structure	Dec. 31, 2008	Structure
<b>Assets</b>				
<b>Fixed assets</b>	1,496,080	76.56%	1,386,033	83.63%
Tangible fixed assets	1,439,793	73.68%	1,333,959	80.48%
Intangible fixed assets	12,993	0.66%	10,141	0.61%
Investments in affiliated undertakings	400	0.02%	8	0.00%
Trade debtors and other receivables	348	0.02%	852	0.05%
Cash and cash equivalents	42,546	2.18%	41,073	2.48%
<b>Current assets</b>	457,956	23.44%	271,397	16.37%
Stocks	63,374	3.24%	35,055	2.12%
Trade debtors and other receivables	134,214	6.87%	135,783	8.19%
Overpaid income tax	404	0.02%	685	0.04%
Cash and cash equivalents	259,964	13.30%	99,874	6.03%
<b>TOTAL ASSETS</b>	<b>1,954,036</b>	<b>100.00%</b>	<b>1,657,430</b>	<b>100.00%</b>
<b>Shareholders' equity</b>				
<b>Shareholders' equity attributable to shareholders of the Company</b>	1,100,844	56.34%	1,106,263	66.75%
Ordinary shares	246,158	12.60%	246,158	14.85%

Other capital	424,405	21.72%	400,015	24.13%
Retained profits	430,281	22.02%	460,090	27.76%
Minority shareholdings	9,610	0.49%	9,485	0.57%
<b>Total shareholders' equity</b>	<b>1,110,454</b>	<b>56.83%</b>	<b>1,115,748</b>	<b>67.32%</b>
<b>Liabilities</b>				
<b>Long-term liabilities</b>	227,270	11.63%	222,854	13.45%
Deferred income tax liabilities	55,760	2.85%	57,346	3.46%
Employee benefits liabilities	103,950	5.32%	101,549	6.13%
Provisions for other liabilities and charges	58,748	3.01%	54,337	3.28%
Trade creditors and other liabilities	8,812	0.45%	9,622	0.58%
<b>Short-term liabilities</b>	616,312	31.54%	318,828	19.24%
Credit facilities and loans	265,000	13.56%	100,000	6.03%
Deferred income tax liabilities	2,413	0.12%	0	0.00%
Employee benefits liabilities	53,859	2.76%	18,877	1.14%
Provisions for other liabilities and charges	53,427	2.73%	51,948	3.13%
Trade creditors and other liabilities	241,613	12.36%	148,003	8.93%
<b>Total liabilities</b>	<b>843,582</b>	<b>43.17%</b>	<b>541,682</b>	<b>32.68%</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,954,036</b>	<b>100.00%</b>	<b>1,657,430</b>	<b>100.00%</b>

The asset item with the largest share in the balance-sheet total is fixed assets (their share amounted to 76.56% and 83.63% for the first half of 2009 and 2008 respectively). Tangible fixed assets accounted for 73.68% and 80.48% of the balance-sheet total respectively. The share of current assets increased in the period being analysed from 16.37% (on December 31, 2008) to 23.44% (on June 30, 2009), accompanied by an increase in the share of fixed assets and their equivalents from 6.03% to 13.30%.

The share of shareholders' equity in the sum total of liabilities decreased from 67.32% (on December 31, 2008) to 56.83% (on June 30, 2009). In that group, shareholders' equity attributable to shareholders fell the most (a decrease from 66.75% in 2008 to 56.34% as at June 30, 2009). The total share of liabilities increased from 32.68% in 2008 to 43.17% as at June 30, 2009, with the share of short-term liabilities increasing to 31.54% and the share of long-term liabilities decreasing to 11.63%. Short-term trade liabilities increased during the period being analysed from 8.93% (on December 31, 2008) to 12.36% (on June 30, 2009) of the balance-sheet total.

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

### 5.1 Material investments of the LW BOGDANKA Capital Group in the first half of 2009

The table below contains details of key material investments of LW BOGDANKA Capital Group in the first half of 2009.

**Table: Key material investments of LW BOGDANKA Capital Group in the first half of 2009**  
(in PLN '000)

<b>Fixed assets under construction and purchases of tangible and intangible assets, including:</b>	<b>Outlays incurred from January 1, 2009 to Jun. 30, 2009</b>
Construction/assembly work	135,855.0

Completion of deliveries – purchases	15,522.0
Purchases of intangible assets	3,995.0
Other outlays	20,383.0
Advance payments for fixed assets under construction	8.0
<b>Total</b>	<b>175,763.0</b>

Outlays on fixed assets under construction were financed from the Company's own funds and a bank loan.

## **5.2 Capital investments of LW BOGDANKA Capital Group in the first half of 2009**

In the first half of 2009, LW BOGDANKA Capital Group did not carry out any capital 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 SEMI-ANNUAL REPORT IN RELATION TO THE FORECAST RESULTS**

According to the information set out in the Issue Prospectus of LW BOGDANKA S.A., drawn up in connection with the public offer of series C shares and published on May 15, 2009, the Company publicly disclosed an annual forecast of the consolidated financial results of LW BOGDANKA Capital Group for 2009. The forecast items of the consolidated profit and loss account of the Group set out in the Issue Prospectus of LW BOGDANKA S.A. included net revenue on sales, operating profit and net profit.

The table below gives details of selected forecast and achieved items of the consolidated profit and loss account of LW BOGDANKA Capital Group in the first half of 2009.

**Table: Selected forecast and achieved items of the consolidated profit and loss account of the LW BOGDANKA Group in the first half of 2009 (in PLN '000) and the degree to which the forecast was fulfilled (in %)**

<b>Forecast item</b>	<b>Forecast</b>	<b>Performance the first half of 2009</b>	<b>Fulfilment of the forecast in the first half of 2009</b>
Net revenue on sales	1,091,713	520,795	47.7%
Operating profit	178,319	104,546	58.6%
Net profit	140,603	83,538	59.4%

The financial results after the first half of 2009 correspond to the expectations of the Management Board, and at present the Management Board of LW BOGDANKA S.A. does not see any threat to the fulfilment of the published forecast of the financial results.

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

The strategic objective of the development of 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 Group's 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 LW BOGDANKA Capital Group will primarily focus on preparatory work associated with settling tender procedures relating to selecting contractors for the implementation of the following investment tasks:

- extending the Mechanical Coal Processing Plant;
- constructing a system for transporting excavated material from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka field;
- constructing individual technological buildings in the Stefanów Field (a main ventilator station, a tower for shaft 2.1, a shaft top building for shaft 2.1 and an STR-M2.1 6/05/04 kV transformer/distribution station in the hoisting gear building) or general mining works in the Stefanów Field.

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 5.4 million tonnes, to 7.4 million tonnes in 2011, to reach the target level of 11.1 million tonnes per annum in 2014).

## **8. DESCRIPTION OF RISKS, THREATS AND FACTORS WHICH ARE SIGNIFICANT FOR THE DEVELOPMENT OF THE CAPITAL GROUP**

Described below are risks and threats which the Management Board believes to be significant and factors which are significant for the operations and development of LW BOGDANKA Capital Group in the second half of 2009.

### **8.1 External factors**

#### **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 Group 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 Company's opinion, LW BOGDANKA S.A. is exposed to a possible adverse influence of the macroeconomic situation on its operations to a relatively limited degree, which is reflected in the fact



that since 1994 the Company has regularly achieved positive financial results, regardless of the macroeconomic situation in Poland and the world. The large decrease in prices recorded on global markets has only resulted in a small decrease in the prices of LW BOGDANKA S.A.

#### **8.1.2 Risk associated with Poland's economic policy with respect to the hard coal mining sector and the power sector**

A significant factor affecting the market position of the LW BOGDANKA Group are the State Treasury's plans relating to restructuring and privatising hard coal mining companies, which are described in the following documents:

- "Strategy for Hard Coal Mining Operations in Poland in 2007-2015", adopted by the Council of Ministers in July, 2007;
- "Poland's Energy Policy up to 2025", adopted by the Council of Ministers in December 2004, which provides for the consolidation of the fuel/energy sector;
- "Poland's Energy Policy up to 2030" of March 2009;
- "Privatisation Plan for 2008-2011", adopted by the Council of Ministers on April 22, 2008. On August 11, 2009, the Council of Ministers adopted a draft updating the "Plan...", which provides for the sale in 2010 of shares in the Company held by the State Treasury.

#### **8.1.3 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.

The Company reduces the risk associated with prices of raw materials for energy production by signing long-term commercial contracts with key customers for power coal.

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

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 LW BOGDANKA S.A.'s operating activities or losses relating to property, financial assets and employees or could result in LW BOGDANKA S.A. 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, in particular, to the Company's strictly 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 the LW BOGDANKA Group's operations include:

- the use of advanced mining machines and equipment, which reduces the risk of industrial malfunctions occurring;
- the fact that the mining deposits are 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.

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

The Company has agreements with contracting partners which will be paid in euros. There is therefore a risk relating to an adverse effect of changes in the euro exchange rate on the financial results achieved by the LW BOGDANKA Group.

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

### **8.2 Internal factors**

#### **8.2.1 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.

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.

### **8.2.2 Risk of IT systems malfunctioning**

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

However, the Company stresses that the Group is systematically taking action aimed at minimising the risk associated with the possibility of IT systems malfunctioning (regularly making back-up copies of important data, using hardware firewalls, and using anti-virus systems on servers and employees' computers). Furthermore, the IT systems used in 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.

### **8.2.3 Key customer risk**

The customers for the vast majority of the power coal produced by the Company are 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.

However, the Company stresses that as at the date of submitting this Report, it has agreements with key customers ensuring the sale of coal produced until the end of 2009. Furthermore, on August 3, 2009 an annual agreement was signed between LW BOGDANKA S.A. and Elektrownia Kozienice S.A. for the supply of power coal for 2010 (information on that agreement is set out in Section 13.2 of this Report).

### **8.2.4 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 relation to Polish hard coal producers, the Company has competitive advantages which minimise the risk associated with price competition from them, e.g. an established market position as one of the leaders of the Polish market for hard coal producers which is differentiated from other companies in the sector in terms of its financial results, hard coal extraction capacity and investment plans, which involve making new mining deposits available.

Another significant risk factor associated with competition are the less favourable quality parameters of the coal which the Company produces 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, in the Management Board's opinion the risk associated with the less favourable quality parameters of the coal produced by LW BOGDANKA S.A. is limited.

#### **8.2.5 Risk associated with the strong position of the trade unions in the Company**

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 action. Four trade union organisations operate in the Company, whose membership constitutes a total of 66% of the Company's employees, while a total of six trade union organisations operate in the LW BOGDANKA Group bringing together 65% 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, which could adversely affect the financial results of the LW BOGDANKA Group. Furthermore, 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 Management Board's opinion, cooperation with the trade unions operating in the Company has so far been successful. One of the Company's objectives is for the cooperation between its Management Board and the trade unions to continue in order to maintain good mutual relations between them and to accept and increase the unions' involvement in achieving the Company's objectives and strategy.

#### **8.2.6 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 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 the LW BOGDANKA Group 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.

#### **8.2.7 Risk of the employees of LW BOGDANKA S.A. being additionally employed in Korporacja Gwarecka S.A.**

In 2002, former and present employees of LW BOGDANKA S.A. founded Korporacja Gwarecka S.A., which 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 in 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, which could adversely affect the financial results achieved by the LWB Group.

### **8.3 Risk factors relating to proceedings and the legal environment**

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

When the Company draws up its real estate tax declarations, it does not take into account (like other mining companies in Poland), for the purposes of calculating that tax, the value of building structures and equipment located in its pits. 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). That such a risk exists is indicated by certain court judgements issued in the context of factual statuses which occurred after January 1, 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 April 14, 2008 and of May 16, 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.

In view of the above and the fact that mining districts in Poland have undertaken measures aimed at encumbering mining companies with that tax, the Group has also calculated the amount of arrears with respect to real estate tax for other non-statute-barred periods and for all districts in which it

conducts mining activities. The provision thus calculated, an amount of PLN 48,748,000, is disclosed in the books of account as at June 30, 2009 (as at June 30, 2008: PLN 38,146,000).

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.

The amount of potential tax arrears plus interest on account of real estate tax is changed for every day of potential delay in the payment of the tax in question.

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.

### **8.3.2 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 Company. 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 Company 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. 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 2009**

### **9.1 Management Board**

The scope of the powers of the Management Board of LW BOGDANKA S.A. (the parent entity in the LW BOGDANKA Capital 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 are appointed for a joint term of office which lasts three years. Members of the Management Board are appointed and removed by the Supervisory Board.

The Management Board for the 6th term is currently in office. The mandates of the members of the Management Board expire on the date of the Ordinary Meeting of Shareholders which approves the financial statements of LW BOGDANKA S.A. for 2009, i.e. not later than June 30, 2010.

No changes were made to the composition of the Management Board of LW BOGDANKA S.A. either in the period covered by this Report, i.e. from January 1 to June 30, 2009, or after the balance-sheet date.

As at June 30, 2009, the composition of the Management Board of LW BOGDANKA S.A. was as follows:

#### **Management Board – 6th term of office**

- |    |                    |  |
|----|--------------------|--|
| 1. | Mirosław Taras     | President of the Management Board                        |
| 2. | Krystyna Borkowska | Vice-President for Economic and Financial Affairs        |
| 3. | Zbigniew Stopa     | Vice-President for Technical Affairs                     |
| 4. | Waldemar Bernaciak | Vice-President for Commerce and Logistics                |
| 5. | Janusz Chmielewski | Member of the Management Board selected by the employees |

## **9.2 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 selected by the Company's employees.

#### **Supervisory Board – 6th term of office**

Up to May 15, 2009 (the date of the Extraordinary General Shareholders Meeting which approved the Company's financial statements for 2008), the Supervisory for the 6th term of office was composed of:

- |    |                        |                            |
|----|------------------------|----------------------------|
| 1. | Krzysztof Maślankowski | Chairman of the Board      |
| 2. | Grażyna Dec            | Vice-Chairman of the Board |
| 3. | Jadwiga Kalinowska     | Secretary of the Board     |
| 4. | Henryk Czapla          | Member of the Board        |
| 5. | Adam Partyka           | Member of the Board        |
| 6. | Wiesław Różycki        | Member of the Board        |

#### **Supervisory Board – 7th term of office**

From May 15, 2009 to the date of submitting this Report, the Supervisory Board for the 7th term has been in office. The mandates of the members of the Supervisory Board expire on the date of the Extraordinary General Shareholders Meeting which approves the financial statements of LW BOGDANKA S.A. for 2011, i.e. not later than June 30, 2012.

As at June 30, 2009, the Supervisory Board of LW BOGDANKA S.A. was composed of:

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

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

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

- 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. TRANSACTIONS WITH AFFILIATED ENTITIES**

In the first half of 2009, 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.

Information on the transactions of LW BOGDANKA Capital Group with companies affiliated with the State Treasury is set out in Section 20 of the abridged consolidated interim financial statements of the LW BOGDANKA Capital Group for the six months ending on June 30, 2009.

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

In the first half of 2009, 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 company dependent on 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 Incentive programme**

On November 27, 2008, an understanding was signed between Lubelski Węgiel BOGDANKA S.A. and all the trade union organisations operating in the Company – the so-called Incentive Programme,



which came into force after the Company's shares were introduced to trading on the WSE (i.e. from June 26, 2009).

Presented below are selected provisions of the Incentive Programme which could affect the Company's financial standing.

Because the Incentive Programme is a collective understanding in the meaning of Article 9 of the Labour Code, the parties undertook to include its provisions in the collective bargaining agreement after the Incentive Programme came into force.

Under the Incentive Programme, within three months from the first quotation of rights to series C shares on the regulated market conducted by the WSE, entitled persons are entitled to a one-off award in the total amount of PLN 36,000,000.

Pursuant to the provisions of the Incentive Programme, employees of Lubelski Węgiel BOGDANKA S.A. employed on the basis of an employment contract for an indefinite term are entitled to a five-year guarantee of employment, effective from the first quotation of the rights to Series C Shares, but not longer than until an employee acquires pension rights. If Lubelski Węgiel BOGDANKA S.A. fails to maintain its obligation to guarantee employment, it will be obliged to pay the employee compensation in an amount corresponding to the product of the average monthly remuneration in the Company in the year preceding the termination of the employment relationship and the number of months remaining to the end of the period of the employment guarantee, but not for more than 15 months. The guarantee of employment and the above-mentioned compensation are not applicable in the case of: (i) termination of an employment contract by mutual consent of the parties; (ii) termination of an employment contract by an employee, giving notice, (iii) termination of an employment contract with immediate effect through the fault of the employee, (iv) termination of an employment contract with immediate effect under Article 53 of the Labour Code, except for termination of an employment contract with immediate effect due to incapacity for work as a result of an accident in the workplace or occupational sickness, (v) termination of an employment contract by Lubelski Węgiel BOGDANKA S.A. due to an employee acquiring rights to a pension or benefits for a disability not caused by an accident in the workplace or occupational sickness, (vi) an employee leaving employment on a pension or disability benefit, and (vii) an event of *force majeure* occurring in the Company as a result of which the operation of the mining plant or an organised part thereof would be impossible.

As a result of signing the Incentive Programme, Lubelski Węgiel BOGDANKA S.A. undertook to annually analyse the possibility of carrying out an additional write-off to the company social benefits fund in an amount not lower than in 2008 and consented to contribute PLN 5,000,000 to that fund in 2009.

Furthermore, under the Incentive Programme the Company consented to an increase in the right to additional holiday leave by three days per year for employees of the Mechanical Coal Processing Plant employed before April 30, 1993.

The other provisions of the Incentive Programme confirm the rights of employees stemming from the provisions of the Labour Law and other acts, the provisions of earlier understandings applicable in the Company and the policy applied by Lubelski Węgiel BOGDANKA S.A. in employee-related matters before the signing of the Incentive Programme.

Also, as a result of negotiations with trade unions a decision was made to set aside an Employee Investors tranche as part of the initial public offering of the Company's shares for employees of the LW BOGDANKA S.A. Group employed under an employment contract or different employment

relationship in the Company or its subsidiaries as at December 31, 2008, consisting of not more than 330,000 series C shares.

On July 29, 2009, the Trade Unions and Lubelski Węgiel BOGDANKA S.A. signed an Annex to the Incentive Programme which precisely specifies the catalogue of persons entitled to receive a one-off bonus.

On July 30, 2009, the Trade Unions adopted the final text of "Rules for Distributing the Bonus Resulting from the Incentive Programme", which defines the principles for distributing the bonus among individual groups of entitled persons and the deadline for paying it, i.e. September 25, 2009.

In the abridged consolidated financial statements of the LW BOGDANKA Capital Group for the first half of 2009, a provision was created in the amount of PLN 36,000,000 for paying a one-off bonus (the "Incentive Fund"), as well as a provision in the amount of PLN 2,500,000 to increase the Company Social Benefits Fund. The provisions were charged to the costs of manufacturing products sold, administrative costs and sales costs.

### **13.2 Conclusion of agreements with Elektrownia Koźienice S.A.**

On August 3, 2009, the Company and Elektrownia "Koźienice" S.A. signed the following agreements and annexes to agreements amending the existing principles of cooperation:

1. A new annual agreement on supplying coal in 2010, updating the volume, schedule and value of coal sales. The agreement will be applicable from January 1, 2010 to March 31, 2011. Deliveries will commence after the completion of the deliveries provided for in the annual agreement on supplying coal in 2009. In connection with the performance of that agreement, LW BOGDANKA S.A. expects to generate net revenues of approx. PLN 643.31 million (+/-1%), according to the quality parameters for power coal declared in the agreement (without secondary quality settlements).
2. Annex No. 1 to the Long-Term Agreement, which extends its term by three months, i.e. to March 31, 2011.
3. Annex No. 2 to the annual agreement on supplying power coal for 2009, which extends its term by three months, i.e. to March 31, 2010, and will be effective from July 1, 2009 to March 31, 2010. That annex contains an updated schedule of deliveries in the second half of 2009 and in the first quarter of 2010 and a reduction of the price of coal relative to the previous agreed price of 4.55%. As a result of the conclusion of Annex 2, the Company's revenues from deliveries of coal to Elektrownia Koźienice S.A. carried out from the date when the Company's securities were admitted to stock exchange trading (i.e. June 22, 2009) to the end of the term of the annual agreement on supplying power coal for 2009 will amount to approx. PLN 385.15 million net.

### **13.3 Fulfilment of the objectives of the issue/how the proceeds from the issue of series C shares will be used**

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 enlarging 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:

- Construction of the 2.1 drawing and ventilation shaft – approx. PLN 53.3 million;
- Extension of the Mechanical Coal Processing Plant – approx. PLN 319.7 million, 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 – approx. PLN 195.7 million;
  - b) Construction of a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant – approx. PLN 120.0 million;
  - c) Enlargement of the coal yard – approx. PLN 4.0 million;
- Other investments in the technical infrastructure of the Stefanów Field – approx. PLN 61.6 million, including:
  - a) Construction of building structures for the Stefanów Field – approx. PLN 41.6 million;
  - b) Air-conditioning for the underground part of the Mine – approx. PLN 20.0 million;
- Extension of the track system for Bogdanka station – approx. PLN 10.1 million.

By the date of submitting this Report, the Company had started up tender procedures relating to investments tasks such as constructing pits in the Stefanów Field, extending the Mechanical Coal Processing Plant, constructing a system for hauling excavated material from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka field, constructing individual technological facilities in the Stefanów Field (a main ventilator station, a tower for shaft 2.1 and a shaft top building for shaft 2.1, and a STR-M2.1 6/05/04 kV transformer and distributor station in the hoisting machine building), and general mining works in the Stefanów Field.

The settlement of the above-mentioned tenders will lead to the start-up of a successive process (starting from the fourth quarter of 2009) of using the funds obtained by LW BOGDANKA S.A. from the public offering of C series shares.

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.

#### **14. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT**

After the Supervisory Board had carried out a bid competition, on July 22, 2009 the Management Board of LW BOGDANKA S.A. concluded an agreement with PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw on carrying out an audit of its financial statements and the consolidated financial statements of LW BOGDANKA Capital Group for 2009 and a review of the abridged consolidated financial statements and the abridged financial statements of LW BOGDANKA Capital Group for the first half of 2009.

Previous cooperation of the Company with PricewaterhouseCoopers Sp. z o.o. involved auditing the consolidated financial statements of the LW BOGDANKA Capital Group for three financial years, i.e. from January 1, 2006 to December 31, 2008, and auditing a forecast of the financial results of the LW BOGDANKA Capital Group for the period from January 1 to December 31, 2009 for the purposes of preparing the Issue Prospectus. PricewaterhouseCoopers Sp. z o.o. also audited the consolidated financial statements of the LW BOGDANKA Capital Group for 2008.

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

<b>Name and surname</b>	<b>Position Function</b>	<b>Date</b>	<b>Signature</b>
<b>Mirosław Taras</b>	President of the Management Board	25.08.2008r.	
<b>Krystyna Borkowska</b>	Vice-President for Economic and Financial Affairs	25.08.2008r.	
<b>Zbigniew Stopa</b>	Vice-President for Technical Affairs	25.08.2008r.	
<b>Waldemar Bernaciak</b>	Vice-President for Commerce and Logistics	25.08.2008r.	
<b>Janusz Chmielewski</b>	Member of the Management Board	25.08.2008r.	