DIRECTORS' REPORT ON OPERATIONS

OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

for the period from 1 January 2010 to 31 December 2010

BOGDANKA, MARCH 2011

CONTENTS

1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP 5
1.1 STRUCTURE AND CHANGES IN THE STRUCTURE OF THE LUBELSKI WĘGIEL BOGDANKA GROUP 5
1.2 Information on the undertakings of the LW BOGDANKA Group: 5
1.2.1 The Parent Undertaking of the Lubelski Węgiel Bogdanka Group 5
1.2.2. Subsidiary and associate: 6
1.3 Organisational and capital affiliations of the Group 7
1.4 Management system at LW BOGDANKA S.A. and its Group 7
1.4.1 Changes in basic management rules of LW BOGDANKA S.A. and its Group 8
1.5 Information on branches (establishments) owned by the companies comprising the Group 8
2. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF THE LW BOGDANKA GROUP CONCLUDED IN 2010 AND FOLLOWING THE BALANCE SHEET DATE 9
2.1 Trade agreements 9
2.1.1 Conclusion of a significant agreement with Elektrownia Kozienice S.A. 9
2.1.2 Conclusion of significant agreements with Elektrownia Kozienice S.A. 9
2.1.3 Transactions with Elektrownia Połaniec S.A. – Grupa GDF SUEZ ENERGIA POLSKA – with the value of a significant agreement 10
2.1.4 Conclusion of a significant agreement with Elektrownia Połaniec S.A. – Grupa GDF SUEZ ENERGIA POLSKA 10
2.1.5 Conclusion of significant agreements with ENERGA Elektrownie Ostrołęka S.A. 11
2.1.6 Transactions with Huta Łabędy S.A. with the value of a significant agreement 12
2.1.7 Conclusion of a significant agreement with Korporacja Gwarecka S.A. 12
2.2 Agreements related to achieving share issue objectives 13
2.2.1 Signing a significant agreement with Consortium of Companies: Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. 13
2.2.2 Conclusion of an agreement on preparing designs and constructing a headframe and shaft top building 14
2.3 Transactions with related entities 14
3. FINANCIAL POSITION OF LW BOGDANKA S.A. 14
3.1 Basis of preparation of the annual consolidated financial statements 14
3.2 Information on the current and forecast economic and financial situation of the LW Bogdanka Group and the assessment of financial resources management 14
3.3 Selected financial information 15
3.4 Information on the current financial position of the Group 17
3.4.1 Coal production and sales 17
3.4.2 Stocks 18
3.4.3 The LW BOGDANKA Group's suppliers 19
3.4.4 Revenue on sales and key customers 19
3.4.5 Statement of the Group's comprehensive income 20
3.4.6 3.4.6 The Group's Profitability 22
3.4.7 Debt and financing structure of the LW Bogdanka Group 23
3.4.8 Assessment of factors and untypical events affecting the Group's operations and the Group's consolidated operating profit for the financial year 24
3.4.9 Differences between the Group's financial results disclosed in the annual report and the published result forecasts for a given year 25
3.4.10 Agreements concerning the Group's loans and borrowings 25
3.5 Information on financial instruments 26
3.6 Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s related entities 26
3.7 Overview of significant off-balance sheet items of the Group in subjective, objective and value terms 26
3.8 The main characteristics of internal audit and risk management systems used by the LW BOGDANKA Group with regard to the process of the drawing up financial statements and consolidated financial statements 26
4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE LW BOGDANKA GROUP'S OPERATIONS 28
4.1 SWOT analysis for the Group 28
4.1.1 LW BOGDANKA S.A. 28
4.1.2 Łęczyńska Energetyka Sp. z o.o. 29
4.2 The Group's development strategy and policy on development direction 30
4.2.1 Development strategy of LW BOGDANKA S.A. 30
4.2.2 Development strategy of Łęczyńska Energetyka Sp. z o.o. 33
4.3 Investments of LW BOGDANKA S.A. 34
4.4 The Company's investments in fixed assets – implementation of share issue objectives 34
4.4.1 Investments in 2010 and planned for 2011 34
4.4.1.1 Assessment of the possibilities of investment plans' execution 43

4.4.1.2 Capital expenditure and investments 44
4.5 Investments of Łęczyńska Energetyka Sp. z o.o. 44
4.5.1 Investments in 2009 – 2010 and assessment of the Company's possibilities to enforce its investment plans 44
4.5.2 Capital expenditure and investments 45
4.6 The Group's research and development and implementation works 45
4.7 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Group within at least the following year 46
4.7.1 Risk associated with the Group's market environment 46
4.7.1.1 Risk associated with the social and economic situation in Poland and the world 46
4.7.1.2 Risk associated with the economic policy of the State in relation to the hard coal mining sector 47
4.7.1.3 Risk associated with the levels of prices for raw materials for power production in Poland and the world 47
4.7.1.4 Risk associated with the introduction of the excise tax in relation to coal 47
4.7.1.5 Interest rate risk 48
4.7.1.6 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events 48
4.7.1.7 Risk associated with the impact of current macroeconomic situation on debt financing availability 49
4.7.1.8 Risk associated with changes in exchange rates 49
4.7.1.9 Risk of restrictive EU climate policy also with respect to the CO2 emissions 49
4.7.1.10 Risk of a decrease in demand for hard coal from the Polish power industry 50
4.7.1.11 Risk of hostile takeover of the Group 50
4.7.2 Risks directly associated with the Group's operations 50
4.7.2.1 Risk associated with estimating the size of deposits 50
4.7.2.2 Risk associated with the launch of extraction of new deposits 51
4.7.2.3 Technical and technological risk 51
4.7.2.4 Risk associated with high costs of technologies applied by the Group 52
4.7.2.5 Risk of IT systems malfunctioning 52
4.7.2.6 Risk associated with retaining and attracting human resources 52
4.7.2.7 Key customer risk 53
4.7.2.8 Risk associated with competition by other power coal producers and the relatively low quality of the coal produced by LW BOGDANKA S.A. 53
4.7.2.9 Risk of delays in planned investments due to the obligation to comply with the Public Procurement Law 54
4.7.2.10 Risk associated with the strong position of the trade unions in the Group 54
4.7.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with the Group (LW BOGDANKA) 54
4.7.2.12 Key supplier risk 54
4.7.2.13 Risk of unfavourable/inappropriate contractual terms being concluded 55
4.7.2.15 Risk associated with related party transactions 55
4.7.3 Financial risk of the Group 55
4.7.3.1 Liquidity risk 55
4.7.3.2 Credit risk of the Group 55
4.7.4 Risks associated with environmental protection 56
4.7.4.1 Risk associated with reclamation and mining damage 56
4.7.4.2 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment 56
4.7.4.3 The Group's risk associated with management of waste generated after extension of the mining area of LW BOGDANKA 57
4.7.4.4 Investment risks of the Group associated with protected areas 57
4.7.5 Risk of the Group associated with proceedings and legal environment 58
4.7.5.1 Risk of change to tax laws 58
4.7.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA 58
4.7.5.3 Risk of LW BOGDANKA associated with expenses for creating certain mining pits and their classification for the purposes of corporate income tax 58
4.7.5.4 Risk of LW BOGDANKA regarding a change in the law and its interpretation and application 59
4.7.5.5 Risk of violating the stock exchange disclosure requirements 59
4.7.6 Risk relations within the Group - Summary 60
5. OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2010 60
5.1 Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company by the management and supervision personnel of LW BOGDANKA S.A. 60
5.2 Information on agreements known to LW BOGDANKA S.A. and the subsidiary (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders. 60
5.3 Acquisition of own shares 61
6. INFORMATION ON GROUP'S PERSONNEL 61

6.1 Employment in the Group ... 61
6.2 Remuneration at the Group ... 61
6.3 Remunerations, awards or benefits, including under incentive or bonus programmes based on the equity of LW BOGDANKA S.A., paid or payable or potentially payable to the members of the Management and Supervisory Board 62
6.4 All agreements concluded by and between LW BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o. and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A. ... 63
6.5 Information on a control system of employee share schemes in the Group ... 63
7. ENVIRONMENTAL PROTECTION ... 64
7.1 Activities of LW BOGDANKA S.A. with respect to environmental protection ... 64
7.2 Activities of Łęczyńska Energetyka Sp. z o.o. with respect to environmental protection ... 68
8. PROCEEDINGS PENDING BEFORE COURTS, ARBITRATION BODIES OR PUBLIC ADMINISTRATION BODIES ... 71
9. OTHER SIGNIFICANT EVENTS AFFECTING LW BOGDANKA GROUP'S OPERATIONS, THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS ... 71
9.1 Tender offer inviting shareholders in BOGDANKA S.A. to sell shares ... 71
9.2 LW BOGDANKA qualified for inclusion in Respect Index ... 72
9.3 Marketing activities conducted by the Company in 2010 ... 72
9.4 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship ... 75
10. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT ... 75
11. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE ... 76
11.1 Corporate governance rules applicable at LW BOGDANKA S.A. ... 76
11.2 The main characteristics of internal audit and risk management systems used by the LW BOGDANKA Group with regard to the process of drawing up financial statements and consolidated financial statements ... 77
11.3 Shareholders holding, directly or indirectly, substantial stakes in LW BOGDANKA S.A. ... 79
11.4 Owners of all the securities which entitle to special control rights ... 79
11.5 Restrictions on exercising the voting right ... 79
11.6 Restrictions on transferring ownership of the Company's securities ... 79
11.7 Description of the rules governing the amendments made to the Company's Articles of Association ... 79
11.8 Governing bodies ... 80
11.8.1 Management Boards ... 80
11.8.1.1 Description of rules regarding appointment and dismissal of management officers of the Parent Undertaking as well as their rights, and in particular the right to make a decision on the issue or purchase of shares ... 80
11.8.1.2 Compositions of the Management Boards ... 81
11.8.1.3 Description of operations of the Parent Undertaking and authorisations ... 82
11.8.1.4 Information on powers of proxy granted and revoked at LW BOGDANKA S.A. ... 85
11.8.1.5 Compositions of the Supervisory Boards ... 85
11.8.1.6 Description of activities of the Parent Undertaking's Supervisory Board ... 86
11.8.1.7 Audit Committee ... 87
11.8.2 General Shareholders Meeting of LW BOGDANKA S.A. ... 88
11.8.2.1 Manner of operations of the General Shareholders Meeting and its main powers, as well as description of rights of the shareholders rights and the manner for their exercise, in particular the rules of operation under the Rules of Procedure of the General Shareholders Meeting ... 88

1. BASIC INFORMATION ON THE LUBELSKI WĘGIEL BOGDANKA GROUP

1.1 STRUCTURE AND CHANGES IN THE STRUCTURE OF THE LUBELSKI WĘGIEL BOGDANKA GROUP

As at 31 December 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. (hereinafter referred to as "Łęczyńska Energetyka"; "subsidiary undertaking") as the subsidiary undertaking.

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

As at the date of submitting this Report (21 March 2011), LW BOGDANKA S.A. also held 24.41% of the shares of the bankrupt company Kolejowe Zakłady Maszyn KOLZAM S.A., with a total par value of PLN 168,050.00. The ownership title to the shares was transferred to the Company as security for settlements for performing transportation services. That company has not been included in the consolidation.

1.2 Information on the undertakings of the LW BOGDANKA Group:

1.2.1 The Parent Undertaking of the Lubelski Węgiel Bogdanka 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
e-mail:	bogdanka@lw.com.pl
industry identification number (REGON):	430309210
tax registration number (NIP):	713-000-57-84

Business activity:

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. In 2009, intensive works were continued in the Building Ceramics Plant connected with reconstruction of its manufacturing buildings and process line that had been commenced in 2008. These reconstruction works were completed and the production was restarted in September 2009.

In 2010, ZCB EkoKLINKIER manufactured ceramic façade bricks in full production capacity from January through July. Given a persistent crisis on the market of construction materials, on 1 August the production was limited to about 70% of maximum production capacity, and on 1 September - to 35% of the maximum level.

The test production of the Max type ceramic hollow wall bricks was launched on 15 November 2010.

1.2.2. Subsidiary and associate:

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 Id. No. (REGON)	004164490
Tax Reg. No. (NIP)	713-020-71-92

Share capital (as at 30 September 2009): PLN 82,677,000.00, divided into 82,677 shares of PLN 1,000.
Shareholding structure:

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

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

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

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

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

On 1 June 1992 the Company took over the operations of the Water and Wastewater Division.

In 1994–1999 the Company expanded its heat production and distribution operations to include local heat generation plants in Zawadów, Łęczna and Ostrów Lubelski.

As of 2 January 2000 the Company has also provided accommodation and catering services at the Kalnica Holiday Resort.

On 1 February 2001 the Łęczna Commune made an in-kind contribution to the Company in the form of former ZEC Łęczna's assets in exchange for shares accounting for 23.33% of the Company's increased share capital.

Since 17 April 2001 the Company has operated under the business name of Łęczyńska Energetyka Sp. z o.o. in Bogdanka.

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

By virtue of Resolution No. 1 of 27 July 2006, the Extraordinary Shareholders Meeting increased the Company's share capital by PLN 2,618,000. The shares were taken up by Lubelski Węgiel Bogdanka S.A. (notarial deed Rep. 3148/2006) on 30 August 2006 in return for an in-kind contribution in the form of a perpetual usufruct right in land and fixed assets with the total market value of PLN 2,618,477.00.
The current share of the Company in the subsidiary's share capital amounts to 88.70%

Associate:

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 Id. No. (REGON)	432693862
Tax Reg. No. (NIP)	505-000-15-99

Share capital (as at 30 June 2009): PLN 50,000.00, divided into 100 shares of PLN 500.

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

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

1.3 Organisational and capital affiliations of the Group

Łęczyńska Energetyka Sp. z o.o. holds 50% of shares in the share capital of EKSPERT Sp. z o.o.

1.4 Management system at LW BOGDANKA S.A. and its Group

The role of LW BOGDANKA S.A. within the Group primarily involves defining the Group's development strategy. The Company also exercises ownership supervision, mainly by way of exercising rights conferred by the shares in Łęczyńska Energetyka, at the Shareholders Meeting of that company. Moreover, as at the day of submitting the Report, three members of the Company's Management Board perform functions in the Supervisory Board of the subsidiary.

Internal organisation of LW BOGDANKA S.A. is determined by Organisational Rules of the Company. Each amendment to the Organisational Rules of the Company as a whole Company's enterprise shall, in accordance with the Company's Articles of Association, be adopted by the Company's Management Board and approved by the Supervisory Board.

The Company's corporate bodies are:

a) the Management Board;
b) the Supervisory Board;
c) the General Shareholders Meeting.

Powers of the Company's governing bodies result from the provisions of the Commercial Companies Code as well as the Company's Articles of Association. Particular powers of the Company's individual governing bodies are determined by:

a) for the Management Board - the Rules of Procedure of the Management Board of Lubelski Węgiel BOGDANKA S.A.;
b) for the Supervisory Board – Rules of Procedure of the Supervisory Board of Lubelski Węgiel BOGDANKA S.A.;
c) for the General Shareholders Meeting – Rules of Procedure of the General Shareholders Meeting of Lubelski Węgiel BOGDANKA S.A.

The Company is headed by the Management Board of LW BOGDANKA, which consists of five persons:

a) President of the Management Board;
b) Vice-President of the Management Board, Trade and Logistics;
c) Vice-President of the Management Board, Technical Affairs;
d) Vice-President of the Management Board, Economic and Financial Affairs, Chief Accountant;
e) Member of the Management Board, elected by the employees.

The Management Board members organise and supervise the organisational units within their own division. The organisational structure of the Company also includes the Chief Engineer - Head of Mining Supervision in Mining Facility, who organises and supervises the operation of the mine in accordance with the provisions of the Geological and Mining Law.

In 2010 the other management rules of the LW BOGDANKA Group did not change.

1.4.1 Changes in basic management rules of LW BOGDANKA S.A. and its Group

In 2010, the following changes occurred in the management rules of the Parent Undertaking:

The following organizational units were introduced to the organisational structure of the Company:

1. Audit and Internal Control Department.
2. Risk Coordinator.

Moreover, from the organizational structure of the Company, the following were removed:

The position of Chief Engineer – Investment Department Manager.

In order to make the management rules of LW BOGDANKA S.A. more precise the following steps were taken in 2010:

- Regulations for procedures associated with invention projects were introduced,
- management procedures for tangible and intangible fixed assets were introduced,
- a coordinator was appointed for the sponsoring activities of the Group,
- an internal procedure was introduced "The manner of preparing, registering and transferring the investment cost estimates and calculations in the Cost Estimation Department",
- an Interdisciplinary Team for the Safety Management System of Railroad Transport was established, and a Power of Attorney was issued associated with the Railroad Transport Safety Management System in Lubelski Węgiel BOGDANKA S.A.

In 2010 the management rules of the LW BOGDANKA Group did not change.

1.5 Information on branches (establishments) owned by the companies comprising the Group

Lubelski Węgiel BOGDANKA and its subsidiary do not have any branches (establishments).

2. INFORMATION ON AGREEMENTS SIGNIFICANT FOR THE BUSINESS OF THE LW BOGDANKA GROUP CONCLUDED IN 2010 AND FOLLOWING THE BALANCE SHEET DATE

The undertakings of the LW Bogdanka Group have no information about significant agreements concluded in 2010 between the shareholders. All significant agreements concluded by the undertakings of the LW BOGDANKA Group in 2010 are described below.

2.1 Trade agreements

2.1.1 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. The estimated net value of the concluded agreement according to supply prices in the current year amounts to PLN 10,432 million.

Long-Term Agreement no. UW/LW/01/2010 on the supply of power coal for the needs of the existing energy blocks at Elektrownia Kozienice SA. was concluded for the period between 4 March 2010 and 31 December 2025. The commencement of the actual deliveries of power coal will take place in the first quarter of 2011, following the completion of deliveries pursuant to the current long-term agreement binding the Parties.

The agreement provides for:

concluding annual agreements specifying: volume, supply schedule, supply prices, and other rules governing logistics and supply settlements during the term of the agreement;

a two-year notice period for the termination of the agreement;

liquidated damages for the 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 damage incurred.

Other terms of the Agreement do not differ from the market standards applied in agreements of that type.

The criterion for recognising the concluded agreement as significant is the fact that it exceeded 10% of the value of the Company's equity.

The Company announced the conclusion of this agreement in Current Report no. 5/2010 of 5 March 2010.

2.1.2 Conclusion of significant agreements with Elektrownia Kozienice S.A.

On 20 December 2010, the Company concluded with Elektrownia Kozienice S.A. with registered office in Świerże Górne an annual agreement on supplying power coal in 2011, making Appendix No. 2 to the Long-Term Agreement presented in Current Report no. 5/2010 of 5 March 2010. The Annual Agreement shall bind the Parties from 1 January 2011 to 31 December 2011 and cover basic deliveries of coal for the blocks of Elektrownia Kozienice complying with the Long-Term Agreement.

The net value of the Annual Agreement concerning basic deliveries in 2011 according to current prices amounts to PLN 617.34 million. As a result of concluding this agreement, the net value of the entire Long-Term Agreement, presented in Current Report no. 5/2010 of 5 March 2010, goes up to the amount of PLN 10,642 million.

The concluded Annual Agreement, making Appendix No. 2 to the Long-Term Agreement, provides for the following liquidated damages: the Party to the Annual Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay to the other Party liquidated damages in the amount of 20% of the value of coal which has not been collected or supplied. Other terms of the Annual Agreement do not differ from the market standards applied in agreements of that type.

On 20 December 2010, LW BOGDANKA S.A. also concluded with Elektrownia Kozienice S.A. an agreement on supplying additional volumes of power coal in 2011 (hereinafter the Additional Agreement), which increases the deliveries to Elektrownia Kozienice with regard to the level specified in the Long-Term Agreement.

The Additional Agreement shall bind the Parties from 1 January 2011 to 31 December 2011 and cover additional deliveries of coal for the blocks of Elektrownia Kozienice. The net value of the Additional Agreement for supplying additional volumes of power coal according to current prices amounts to PLN 68.56 million. In aggregate (Annual Agreement and Additional Agreement) the net value of power coal supplies to Elektrownia Kozienice S.A. in 2011 shall amount to PLN 685.90 million.

The criterion for recognising the concluded agreements as significant is the fact that they exceed 10% of the value of the Company's equity.

The Company announced the conclusion of this agreement in Current Report no. 44/2010 of 20 December 2010.

2.1.3 Transactions with Elektrownia Połaniec S.A. – Grupa GDF SUEZ ENERGIA POLSKA – with the value of a significant agreement

On 15 January 2010, the Company informed that the net value of agreements concluded between LW BOGDANKA S.A. and Elektrownia Połaniec Spółka Akcyjna – Grupa GDF SUEZ ENERGIA POLSKA from 22 June 2009, i.e. the date of admission of the Company's securities to stock exchange trading, to 15 January 2010 amounted to PLN 331.78 million.

The agreement of the highest value was Annex No. 5, signed on 15 January 2010 between LW BOGDANKA S.A. and Elektrownia Połaniec, to the Long-Term Agreement on Sale of Power Coal no. 3/W/2007, concluded on 30 October 2007 (the Agreement) and described in the Issue Prospectus in section 8.6.3.2.

The signed Annex was effective in the period from 1 January 2010 to 31 December 2010 and specified the volume of supplies of power coal, price and schedule of quarterly supplies. According to commercial terms included in the Annex, the Company's net revenue from supply of coal to Elektrownia Połaniec in 2010 amounted to PLN 215.28 million.

The Agreement provides for the following liquidated damages:

For the failure to supply or collect the amount of coal indicated in the Agreement, liquidated damages shall be paid in the amount of 10% of the value of coal which has not been supplied or collected. Each Party has the right to claim supplementary damages on general terms if the liquidated damages fail to cover the value of damage incurred by the Party, except for lost profit.

Other terms did not differ from the market standards applied in agreements of that type.

The Company announced the conclusion of this agreement in Current Report no. 2/2010 of 15 January 2010.

2.1.4 Conclusion of a significant agreement with Elektrownia Połaniec S.A. – Grupa GDF SUEZ ENERGIA POLSKA

On 20 September 2010, the Company signed Annex No. 6 (the "Annex") to the Long-Term Agreement on Sale of Power Coal no. 3/W/2007, concluded on 30 October 2007 between the Company and Elektrownia Połaniec Spółka Akcyjna – Grupa GDF SUEZ ENERGIA POLSKA (Elektrownia Połaniec) and described in the Issue Prospectus in section 8.6.3.2 (the "Agreement"), amended with Annex No. 5 (described in Current Report no. 2/2010 of 15 January 2010).

The concluded Annex extends the performance of deliveries specified for 2010 and described in the previous Annex by 31 January 2011. In addition, it specifies the volume of supplies of power coal, price and schedule of quarterly supplies in 2011, to be made following the completion of deliveries for 2010. According to commercial terms included in the Annex, the Company's net revenue from supply of coal to Elektrownia Połaniec in 2011, which will be made following the completion of deliveries for 2010, will amount to 290.70 million. The Annex is effective from the date of its conclusion until 31 December 2011.

The Agreement provides for the following liquidated damages:

For the failure to supply or collect the amount of coal indicated in the Agreement, liquidated damages shall be paid in the amount of 10% of the value of coal which has not been supplied or collected. Each Party has the right to claim supplementary damages on general terms if the liquidated damages fail to cover the value of damage incurred by the Party, except for lost profit.

Other terms do not differ from the market standards applied in agreements of that type.

The criterion for recognising the concluded annex as significant is the fact that it exceeded 10% of the value of the Company's equity.

The Company announced the conclusion of this Annex in Current Report no. 36/2010 of 20 September 2010.

2.1.5 Conclusion of significant agreements with ENERGA Elektrownie Ostrołęka S.A.

On 19 October 2010, the Company signed the Long-Term Agreement on Sale of Power Coal with ENERGA Elektrownie Ostrołęka with registered office in Ostrołęka.

The agreement covers supplies of power coal to a newly built energy block in Ostrołęka – Block C with capacity of ca. 1000MW.

The term of the agreement shall be from the date of its conclusion to completion of deliveries for full 19 years of operation of Block C. The commencement of deliveries and commencement of the period of operation of Block C is anticipated in 2016.

The price of coal shall be determined for quarterly periods pursuant to price formula connected with coal prices on world markets.

The net value of the entire agreement according to current prices amounts to ca. PLN 12.5 billion.

The agreement provides for the following liquidated damages:

The party to the agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay its value to the other party.

The agreement provides for the following terms of its termination:

The Company may terminate the agreement if an agreement on design, procurement and execution of the planned Block has not been concluded and the financing of energy block investment has not been closed by 30 June 2012. The agreement cannot be terminated by the parties over the first 12 years from the date of commencement of operation of the new block, afterwards the parties can terminate the agreement with a three-year notice.

The terms do not differ from standards applied in typical agreements for financing investments on project finance basis.

The criterion for recognising the concluded agreement as significant is the fact that its value exceeded 10% of the value of the Company's equity.

The Company announced the conclusion of this Agreement in Current Report no. 40/2010 of 19 October 2010.

On 14 December 2010, the Company signed the Long-Term Agreement on Sale of Power Coal (the "Agreement") with ENERGA Elektrownie Ostrołęka with registered office in Ostrołęka at ul. Elektryczna 5.

The Agreement shall bind the parties from 1 January 2011 to 31 December 2015 and cover deliveries of coal to the existing blocks of Elektrownia Ostrołęka. The price of coal shall be determined for annual periods based on negotiations.

The net value of the entire Agreement according to current prices amounts to PLN 799 million.

The Agreement provides for the following liquidated damages:

The party to the Agreement failing to collect or supply the contracted volume of coal on quarterly basis shall pay the other party liquidated damages in the amount of 10% of the value of coal which has not been collected or supplied.

The Agreement provides for the following terms of its termination: the Parties can terminate the Agreement with a 12-month notice.

Other terms of the Agreement do not differ from the market standards applied in agreements of that type.

The criterion for recognising the concluded Agreement as significant is the fact that it exceeded 10% of the value of the Company's equity.

The Company announced the conclusion of this Agreement in Current Report no. 43/2010 of 14 December 2010.

2.1.6 Transactions with Huta Łabędy S.A. with the value of a significant agreement

On 22 April 2010, the Management Board of LW BOGDANKA S.A. informed that the net value of agreements concluded between the Company and Huta Łabędy S.A. with registered office in Gliwice from 22 June 2009, i.e. the date of admission of the Company's securities to stock exchange trading, to 22 April 2010 amounts to PLN 183.7 million.

The agreement of the highest value is an agreement signed on 22 April 2010 between LW BOGDANKA S.A. and Huta Łabędy, the subject of which is delivery of gallery timbering from section V-32 and V-36 made from steel with enhanced mechanical properties.

The net value of the Agreement amounts to PLN 113,750,000. The Agreement shall be performed successively from the date of its conclusion until 31 December 2011.

The agreement provides for the following liquidated damages:

If the Supplier delays with performance of each periodic order, the Company shall be entitled to charge the Supplier with liquidated damages in the amount of 0.1 % of the net value of non-performed part of such periodic order.

In the event that delay in performance exceeds 21 days, the Company shall be 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 Company terminates the agreement for reasons attributable to the Supplier, the Supplier shall pay the Company liquidated damages in the amount of 10 % of the maximum agreement value. The said right shall be vested in the Company regardless of its right to charge the Supplier with liquidated damages described in sections 1 and 2 above.

Other terms do not differ from the market standards applied in agreements of that type.

The criterion for recognising the concluded agreement as significant is the fact that it exceeded 10% of the value of the Company's equity.

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

2.1.7 Conclusion of a significant agreement with Korporacja Gwarecka S.A.

On 5 February 2011, the Company informed in Current Report no. 3/2011 that the net value of agreements concluded between the Company and Korporacja Gwarecka S.A. with registered office in Bogdanka over the last 12 months (together with the agreement described below) amounted to PLN 322 million and therefore exceeded 10% of the value of the Company's equity. The agreement of the highest value is an agreement signed on 4 February 2011 (the "Agreement") between LW BOGDANKA S.A. and Korporacja Gwarecka, the subject of which is performing works at the Company connected with production, excavation, mechanical processing, quality control and transport of hard coal, conducting preparatory works, repair and maintenance works and other works specified in the subject of the order necessary in order to execute the works specified above at Lubelski Węgiel BOGDANKA S.A. (together with the Stefanów Field) on Saturdays, Sundays and statutory holidays over the period of 24 months from 1 February 2011 to 31 January 2013. The maximum net value of the agreement amounts to ca. PLN 319 million and will depend on the scope of services contracted and performed.

The agreement provides for the following liquidated damages:

In the event that in any monthly settlement period the Contractor fails to achieve the monthly minimum output of excavated coal, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount of PLN 20 per each tonne of excavated coal below the level of monthly minimum output.

In the event that in any monthly settlement period the Contractor fails to achieve the monthly minimum progress of preparatory works, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount of PLN 5,000 per each running metre below the monthly minimum progress of preparatory works.

In the event of non-performance or undue performance by the Contractor of services other than mentioned in sections 1 and 2, for reasons attributable to the Contractor, the Contractor shall pay the Client liquidated damages in the amount equivalent to 200 % of the net value of man-shifts, according to the rates set out in the agreement, estimated by representatives of both parties as necessary in order to duly perform uncompleted part of the task in question.

Payment of liquidated damages does not exclude the possibility of the Client claiming damages from the Contractor on general terms if the incurred damage exceeds the value of liquidated damages. Other terms do not differ from the market standards.

The Agreement replaces an agreement effective from 3 February 2009 to 3 February 2011 and described in section 8.6.5.1. of the Issue Prospectus of LW BOGDANKA S.A., which was published on 15 May 2009.

2.2 Agreements related to achieving share issue objectives

2.2.1 Signing a significant agreement with Consortium of Companies: Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

On 29 June 2010, LW BOGDANKA S.A. signed a significant agreement with Consortium of Companies (the "Contractor"): Mostostal Warszawa S.A. and Acciona Infraestructuras S.A.

The net value of the Agreement amounts to PLN 186,761,899.36 and its subject is Extension of the Mechanical Coal Processing Plant at Lubelski Węgiel BOGDANKA S.A., with the scope of the agreement covering preparing detailed designs, facility construction, delivery of machines and equipment, on-site assembly, launch and start-up of machines and equipment, and obtaining permits for use.

The time limit for the performance of the Agreement is 18 months from its conclusion.

The Agreement provides for the following liquidated damages:

The Contractor agrees to pay to the Client liquidated damages for any delay in the performance of the Subject of the Agreement with respect to the time limit as set out therein, caused by any fault of the Contractor, in the amount of 0.05% of the net value of the maximum remuneration per each commenced day of delay;

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 as set out in the Agreement.

The Contractor agrees to pay the Client liquidated damages for delays caused by reasons attributable to the Contractor, for delays in remedying Faults discovered during the Technical Acceptance of the Facilities or upon Final Acceptance of the Subject of the Agreement or during the warranty period – in the amount of 0.02% of the net value of the maximum remuneration as set out 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.

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 liquidated damages in the amount of 10% of the net value of the remuneration as set out in the Agreement.

In the event that the incurred damage exceeds the value of 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 Polish Civil Code. The Client is entitled to concurrently demand liquidated damages specified in sections 1-3 above. 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.

The agreement announced in Current Report no. 33/2010 of 29 June 2010.

2.2.2 Conclusion of an agreement on preparing designs and constructing a headframe and shaft top building

The investment will be carried out by Przedsiębiorstwo Montażu Konstrukcji Stalowych i Urządzeń Górniczych Pemug S.A. in Katowice. The net value of the agreement amounts to PLN 34.4 million.

The subject of the agreement signed on 26 January 2010 is the preparation of designs and construction of a headframe for shaft 2.1 and a shaft top building along with remaining facilities, including winch foundations, friction lift foundations, an air trunk, roads, yards, tracks and area lighting in the Stefanów Field.

Pemug S.A. is a leader of a consortium in this undertaking, formed also by KPBP BUDUS from Katowice. The consortium won the tender for the investment due to the best price offer.

The investment will be carried out within 12 months from the day of signing the agreement, not later, however, than by 31 January 2011.

2.3 Transactions with related entities

In 2010, the Company and its subsidiaries concluded no significant transactions with related entities which would be individually or jointly significant and would be concluded on other than an arm's length basis.

In 2010, the following agreements concluded by LW BOGDANKA S.A. and Łęczyńska Energetyka were in effect:

- for heat energy supplies,
- for water supplies and disposal of sewage, maintenance services and others,
- for sale of power coal and electrical power,
- agreements of lease, rental and lending for use,
- heating of inlet air on shaft 2.2,
- agreement for the construction of heat pipeline.

3. FINANCIAL POSITION OF LW BOGDANKA S.A.

3.1 Basis of preparation of the annual consolidated financial statements

The Group draws up its financial statements on the basis of the International Financial Reporting Standards endorsed by the European Union. 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 annual consolidated financial statements of the LW Bogdanka Group for the period from 1 January 2010 to 31 December 2010 (hereinafter referred to as the "Annual consolidated financial statements") were prepared according to the historical cost principle, including the valuation at fair value of certain components of tangible fixed assets in connection with assuming fair value as a presumed cost, which was carried out as at the day of the Company's transition to the IFRS, i.e. 1 January 2005.

3.2 Information on the current and forecast economic and financial situation of the LW Bogdanka Group and the assessment of financial resources management

The Group's economic and financial position is stable. The achieved financial results, the value of generated cash flow and the value of cash held show that the Group's financial position is very good. The LW Bogdanka Group has no problems with settling contracted liabilities. Financial resources management must be considered very good, which is confirmed by the value of the financial income generated in 2010.

As at the date of drafting the information, the Company sees no threat as to the possibility to fulfil its contracted liabilities in the future. The Company is continuously conducting an on-going analysis of the held and planned financial resources.

This section presents selected ratios characterising the Group's financial position for the period from 1 January 2010 to 31 December 2010, calculated on the basis of the financial data included in the Group's financial statements, prepared in compliance with the International Financial Reporting Standards endorsed by the European Union for the periods ended on 31 December 2010.

3.3 Selected financial information

Table 1 Selected financial information of the Group

Item	Q4 2010	Q4 2009	Change 2010/2009 [%]	4 Qs 2010	4 Qs 2009	Change 2010/2009 [%]
Revenue on sales	296,223	267,721	10.65	1,230,447	1,118,393	10.02
Gross profit	92,452	54,606	69.31	409,684	357,460	14.61
EBITDA	77,090	48,534	58.84	414,548	367,988	12.65
EBIT (Operating profit)	43,332	13,408	223.18	276,472	226,710	21.95
Profit before taxation	46,364	20,395	127.33	288,229	237,835	21.19
Net profit	37,142	16,455	125.72	230,122	190,842	20.58
Operating cash flow	84,399	71,720	17.68	368,235	365,586	0.72
Investing cash flow	-149,801	-85,993	74.20	-597,244	-365,932	63.21
Financing cash flow	19,451	-1,308	-1587.08	19,451	582,131	-96.66

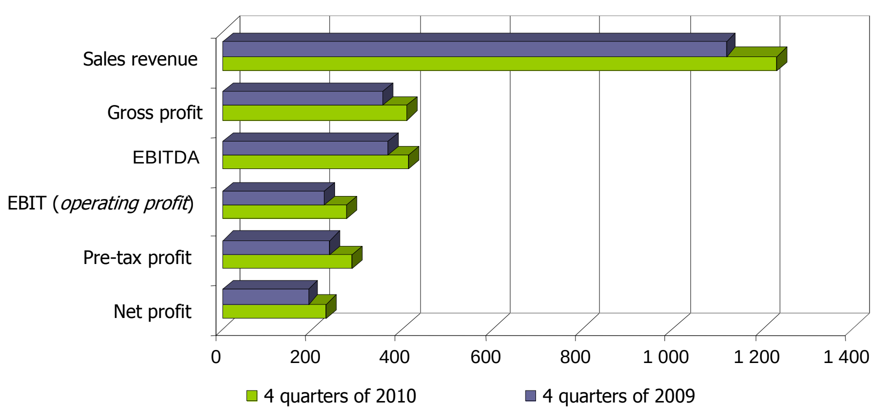
Table 2

Item	31 Dec. 2010	31 Dec. 2009	Change 2010/2009 [%]
Total assets	2,828,045	2,469,814	14.50
Fixed assets	2,163,972	1,617,528	33.78
Current assets	664,073	852,286	-22.08
Shareholders' equity	1,969,019	1,738,897	13.23
Provisions and liabilities	859,026	730,917	17.53

The financial statements prepared for the period from 1 January 2010 to 31 December 2010 show that the Lubelski Węgiel BOGDANKA Group generated sales revenue of PLN 1,230,447,000, which is an increase of 10.02%, i.e. by PLN 112,054,000 as compared to analogous period of the previous year. A comparison of the Group's quarterly results shows that the Group's sales revenue increased from PLN 267,721,000 in the fourth quarter of 2009 to PLN 296,223,000 in the fourth quarter of 2010.

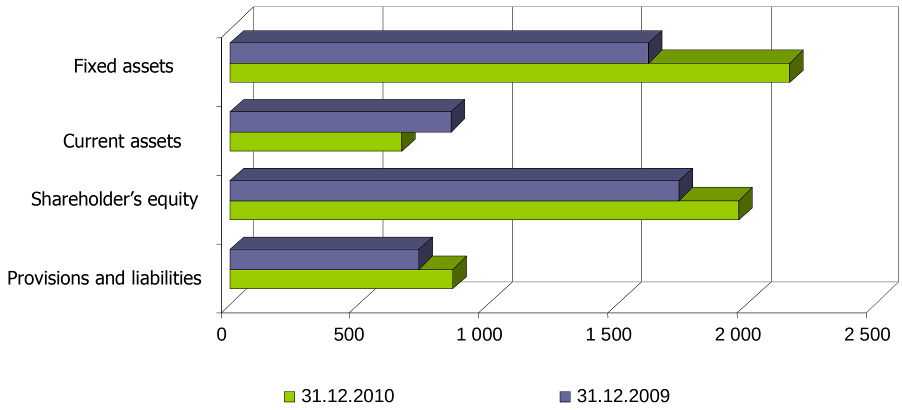
In 2010 the Group's operating profit increased from PLN 226,710,000 to PLN 276,472,000 (+21.95% on a year-to-year basis). EBITDA (operating profit before depreciation/amortisation) was PLN 414,548,000 for the period from 1 January 2010 to 31 December 2010 and PLN 367,988,000 for the same period of 2009.

Analysis of the consolidated statement of comprehensive income (PLN million)



Only in the fourth quarter of 2010, the LW Bogdanka Group generated net profit of PLN 37,142,000, as compared to PLN 16,455,000 a year earlier. The Group's net profit for four quarters of 2010 was PLN 230,122,000, compared to PLN 190,842,000 for the same period of 2009, which means an increase of 20.58%, or by PLN 39,280,000.

Analysis of the statement of financial position (PLN million)



The consolidated statement of financial position prepared as of 31 December 2010 shows an increase in the balance-sheet total from PLN 2,828,045,000, or by PLN 358,231,000, compared to the figure as of 31 December 2009. The value of fixed assets increased from PLN 1,617,528,000 (31 December 2009) to PLN 2,163,972,000 (31 December 2010). This increase (+33.78%) is mostly the result of implementing an investment programme by the Parent Undertaking, involving the development of the Stefanów Field (expected to double the Company's production of commercial coal) and purchasing a longwall coal ploughing system for low seam mining. The value of current assets fell from PLN 852,286,000 to PLN 664,073,000 (PLN - 188,213,000 or -22.08%), mostly as a consequence of a decrease in cash held by the Group (resulting from expenditure on the investment programmes).

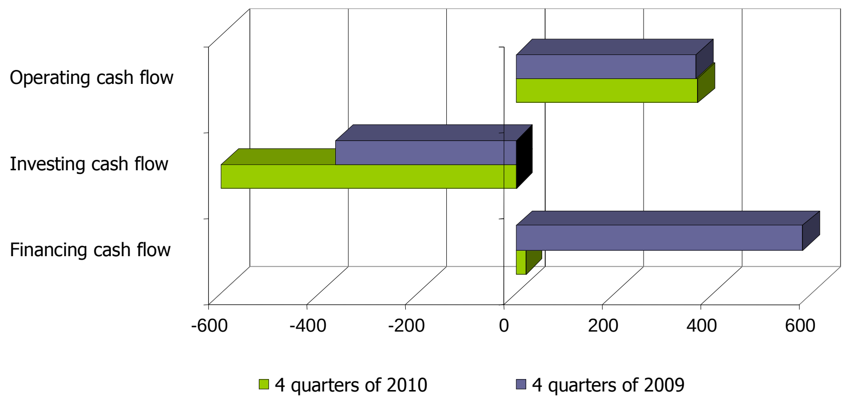
On the liabilities side, equity increased by 13.23% to PLN 1,969,019,000, while provisions and liabilities by +17.53% to PLN 859,026,000. An increase in shareholders' equity (+ PLN 230,122,000) was attributable to the net result generated by the Lubelski Węgiel Bogdanka Group in the period from 1 January 2010 to 31 December 2010. The rise in provisions and liabilities, on the other hand, was attributable to an increase in the following balance sheet items:

- government grants received (+PLN 19,451,000)
- short-term trade creditors and other liabilities (+PLN 77,537,000),
- short-term provisions for other liabilities and charges (+PLN 19,093,000).

A decrease in long-term loans and borrowings (-PLN 50,000,000) with a simultaneous increase in short-term loans and borrowings (+PLN 50,000,000) does not result from the repayment/taking out of any loans or borrowings, but from reclassification of part of the Company's interest-bearing debt (PLN 250,000,000) as designed for repayment within the following 12 months.

Equity accounted for 69.62% and 70.41% of the Company's liabilities and equity as of 31 December 2010 and 31 December 2009, respectively.

Analysis of the cash flow statement (PLN million)



During four quarters of 2010, the Group financed its business activities with operating cash flows and cash accumulated in the previous years. In the analysed period, their value amounted to PLN 368,235,000 and was higher by PLN 2,649,000 with respect to the analogous data of the previous year.

Cash flows from investing activities for four quarters of 2010 were PLN 597,244,000, down by PLN 231,312,000 compared to the same period of 2009. This decrease was attributable to the Parent Undertaking's expenditure on tangible fixed assets (e.g. purchasing a longwall coal ploughing system for low seam mining, developing the Stefanów Field) as well as expenses incurred by the subsidiary – Łęczyńska Energetyka.

In the period from January to December 2010 the Group generated net financing cash flow in the amount of PLN 19,451,000 (the grant of the Ministry of Economy awarded to the Parent Undertaking for execution of initial investments i.e. connected with, including but not limited to maintenance of the access to the deposits), while in the previous year net cash flow amounted to PLN 582,131,000 (on the side of inflows: the share capital was increased by means of an issue of shares and a loan was taken out; while on the side of outflows: the loan was repaid and dividend for 2008 was paid).

3.4 Information on the current financial position of the Group

3.4.1 Coal production and sales

During four quarters of 2010 (as in the previous years), the revenue on sales generated by the LW BOGDANKA Group were primarily determined by the Parent Undertaking's production (extraction) capacity, presented in the table below.

Table 3 Production (extraction) capacity of LW BOGDANKA for 4 quarters 2010 and 4 quarters 2009 ('000 tonnes)

4 Qs 2010	4 Qs 2009	Change 2010/2009 [%]
5,800.03	5,236.73	10.76

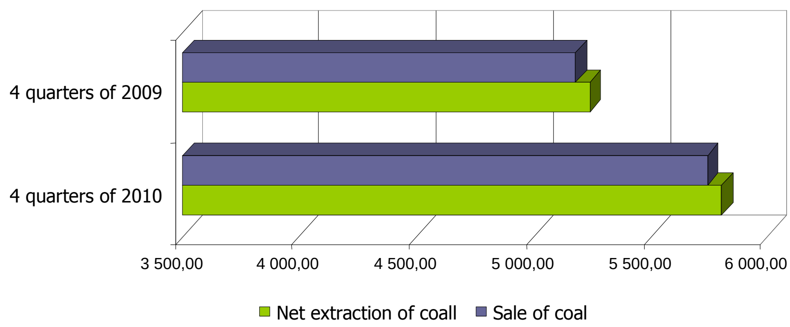
During the whole 2010, as compared to the analogous period of 2009, the extraction of commercial coal increased by almost 11% and amounted to 5,800,030 tonnes, compared to the level of 5,236,730 tonnes extracted in the previous year. The mining technology solutions implemented by the Company (e.g. purchasing a longwall coal ploughing system for low seam mining, as well as improving the process of initial separation of waste rock from the material underground) are effective and efficient, which can be confirmed by the fact that the 10.76% rise in production of coal was achieved with gross production lower by 1.4%. The commercial coal production/gross production ratio for four quarters of 2010 was 74.00%, compared to 65.90% for the same period of 2009.

Table 4 Sale of coal of LW BOGDANKA for 4 Qs 2010 and 4 Qs 2009 ('000 tonnes)

4 Qs 2010	4 Qs 2009	Change (2010/2009) [%]
5,736.84	5,175.47	10.85

Due to effectively implemented projects, production of commercial coal in 2010 was 563,300 tonnes higher than in the same period of 2009, which translated into higher sales amounting to 5,736,840 tonnes for 12 months of 2010 (an increase by 10.85%, i.e. 561,370 tonnes). The graph below shows the figures for production and sales of commercial coal for the periods under analysis.

Analysis of the extraction and sale of coal ('000 tonnes)

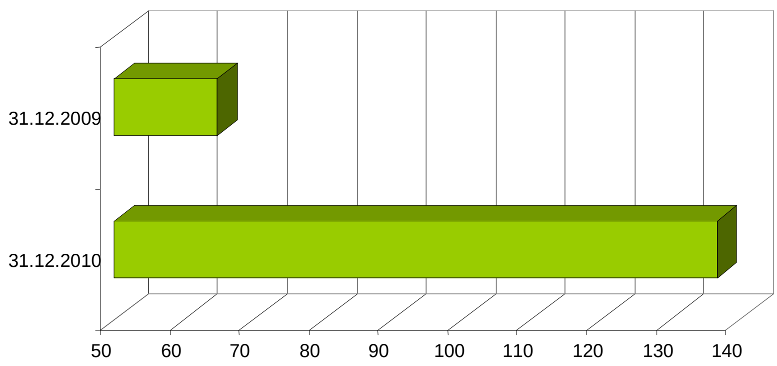


3.4.2 Stocks

The balance of stock of trade coal held by the Parent Undertaking as at 31 December 2010 was 136,730.68 tonnes (which represents an increase by 71,946.04 tonnes [+111.05%] with respect to the level as at 31 December 2009). It must be noted that it is the proper stock (with the current daily extraction level of above 19,100 tonnes/day), which, under the decision of the Mine's Management Board, secured the sales in the first quarter of 2011.

Table 5 Stock of coal

Item	31 Dec. 2010	31 Dec. 2009	Change 31 Dec. 2010 / 31 Dec. 2009 [%]
Stock of coal	136,730.68	64,784.64	111.05



3.4.3 The LW BOGDANKA Group's suppliers

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

In 2010, the supplies for the Company from any of the Company's suppliers, did not achieve the level exceeding 10% of the total revenue on sales.

Main supplier of the material for the Company's basic production in 2010 was HUTA ŁABĘDY S.A. - whose supplies included gallery casings and construction elements for gallery casings (crossings, shackles, special gates).

3.4.4 Revenue on sales and key customers

During four quarters of 2010, the LW BOGDANKA Group's revenue on sales was at the level of PLN 1,230,447,000 – up by PLN 112,054,000 compared to the sales revenue figure for four quarters of 2009. The rise in revenue was the result of higher sales volumes of commercial coal, with the average price of the coal sold being lower than in 2009.

Of the Group's four revenue categories, growth was recorded in the case of coal sales (+10.41%) and sales of goods and materials (+ 5.20%). In the other categories (sales of ceramics and other activities [including also Łęczyńska Energetyka]), year-to-year revenue was down by -7.74% and - 0.32%, respectively.

The main source of the LW BOGDANKA Group's revenue on sales in 2010 (and 2009) was the production and sale of power coal. From 1 January 2010 to 31 December 2010, those activities generated 96.80% of the revenue on sales generated by the Group (compared to 96.45% in the same period of the previous year). More than 80% of coal sales realised in the analysed period of 2010 (as well as in the same period of the previous year) were carried out on the basis of long-term commercial agreements concluded between Lubelski Węgiel Bogdanka S.A. and Elektrownia „Kozienice" S.A., Elektrownia Połaniec S.A. - GDF Suez Energia Polska, ENERGA Elektrownie Ostrołęka S.A.

The revenue from other activities (including the income generated by Łęczyńska Energetyka) accounted for 1.82% of the total revenue in the period from 1 January 2010 to 31 December 2010, compared to 2.01% a year earlier. Revenue from the sale of ceramics accounted for less than 2.01% of the total sales revenue in both periods covered by this report.

Table 6 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (PLN '000)

Item	4 Qs 2010	4 Qs 2009	Change (2010/2009) [%]

Sales of coal	1,191,016	1,078,681	10.41
Sales of ceramics	7,868	8,528	-7.74
Other activities	22,442	22,514	-0.32
Sales of goods and materials	9,121	8,670	5.20
Total revenue on sales	**1,230,447**	**1,118,393**	**10.02**

Table 7 Structure by type of revenue on sales of the LW BOGDANKA Group

Item	4 Qs 2010	Share [%]	4 Qs 2009	Share [%]
Sales of coal	1,191,016	96,80	1,078,681	96.45
Sales of ceramics	7,868	0,64	8,528	0.76
Other activities	22,442	1,82	22,514	2.01
Sales of goods and materials	9,121	0,74	8,670	0.78
Total revenue on sales	**1,230,447**	**100,00**	**1,118,393**	**100.00**

The LW BOGDANKA Group operates primarily in Poland. During the analysed periods (of both 2010 and 2009), export sales constituted a fraction of revenues generated and concerned sales of ceramics. The share of export sales in total revenue on sales did not exceed 0.1%.

The customers for the Group's coal, whose share in sales exceeded 10% of the total revenue on sales in 2010, were:

- Elektrownia Kozienice S.A.- Grupa ENEA S.A. – approx. 53% of share in the revenue;
- Elektrownia Połaniec S.A. -GDF Suez Energia Polska Group - approx. 17% of share in the revenue;
- ENERGA Elektrownie Ostrołęka S.A. - approx. 12% of share in the revenue.

In 2010 there were no formal relationships between the Group and its customers.

Table 8 Geographical structure of revenue on sales of the LW BOGDANKA Group

Item	4 Qs 2010	Share [%]	4 Qs 2009	Share [%]
Domestic sales	1,229,619	99,93	1,117,688	99.94
Foreign sales	828	0,07	705	0.06
Total revenue on sales	**1,230,447**	**100,00**	**1,118,393**	**100.00**

3.4.5 Statement of the Group's comprehensive income

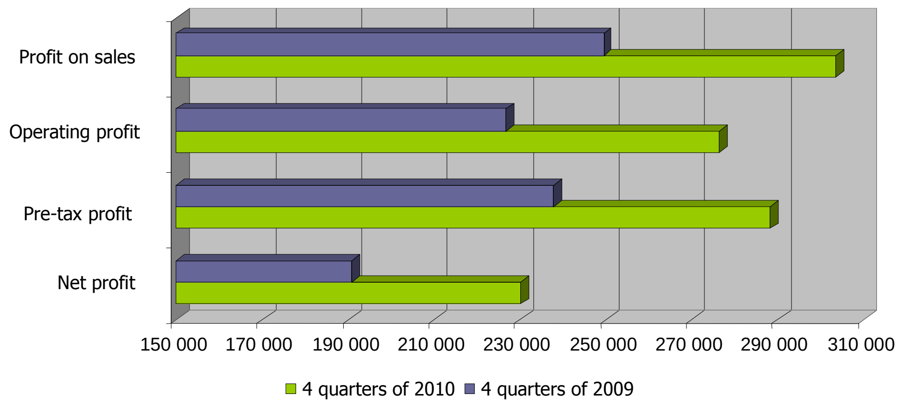
In the four quarters of 2010, revenue on sales of the LW BOGDANKA Group increased by 10.02% (up to the level of PLN 1,230,447,000, as compared to the same period of the previous year. In the same period the Group's costs (total costs of products, goods and materials sold, cost of sales, administrative expenses) increased by 6.68% up to the level of PLN 926,865,000. Such dynamics in costs and revenue led to the profit on sales increasing by 21.66%, i.e. PLN 303,582,000 for 12 months of 2010 as compared to PLN 249,527,000 for the same period of 2009.

Table 9 Selected items of the statement of comprehensive income of the LW BOGDANKA Group

Item	4 Qs 2010	4 Qs 2009	Change (2010/2009) [%]
Revenue on sales	1,230,447	1,118,393	10.02%
Cost of products, goods and materials sold, cost of sales, administrative expenses	926,865	868,866	6.68%
Profit on sales	**303,582**	**249,527**	**21.66**
Other income	3,902	6,143	-36.48
Other expenses	3,343	2,140	56.21
Other net profit/loss	-27,669	-26,820	3.17
Operating profit	**276,472**	**226,710**	**21.95**

Financial income	25,362	18,112	40.03
Financial expenses	13,546	7,076	91.44
-share in profits/losses of associates	-59	89	-166.29
Profit before taxation	**288,229**	**237,835**	**21.19**
Income tax	58,107	46,993	23.65
Net profit	**230,122**	**190,842**	**20.58**
attributable to shareholders of the Company	229,811	191,472	20.02

Analysis of consolidated statement of comprehensive income on particular levels of the Group's operations (PLN '000)]



Other income

For 12 months of 2010, other operating income amounted to PLN 3,902,000 compared to PLN 6,143,000 for the same period of the previous year – this means a decrease in its value by 36.48%. An amount of PLN 3,902,000 was recorded as income resulting from non-recurring events (primarily received compensations and released provisions).

Other expenses and other net profit/loss

Other expenses for 12 months of 2010 amounted to PLN 3,343,000, compared to PLN 2,140,000 for the same period of 2009, which means an increase of 56.21%. In 2010, other net profit/loss amounted to PLN 27,669,000 compared to PLN 26,820,000 in the whole 2009.

In 2010 the Company recorded higher provisions and an increase in negative exchange differences (resulting, among other things, from the purchase of the longwall coal ploughing system).

Adjusted for profit on sales, other income, other expenses and other net profit/loss, the net operating profit (EBIT) for four quarters of 2010 is PLN 276,472,000, up by 21.95% compared to the previous year.

Financial income

Financial income for 12 months of 2010 was PLN 25,362,000, compared to PLN 18,112,000 a year earlier (an increase by 40.03%). The change in financial income is attributable to an increase in the average annual level of cash within the Group.

Financial expenses

The Company's financial expenses in 2010 amounted to PLN 13,546,000, compared to PLN 7,076,000 a year earlier (+91.44%). The rise in financial expenses is the result of an increase, in 2010, in the Group's average annual level of loans compared to a year earlier (in the first half of 2009, the Parent Undertaking received a total of PLN 180,000,000 in new payments of a long-term loan).

The pre-tax earnings for 12 months of 2010 were higher by 21.19% than in the previous year - the pre-tax profit for four quarters of 2010 amounted to PLN 288,229,000 as compared to PLN 237,835,000 for four quarters of 2009.

Adjusted for corporate tax paid by the Lubelski Wegiel Bogdanka Group, net profit for the period from 1 January 2010 to 31 December 2010 was PLN 230,122,000, compared to PLN 190,842,000 for the same period of 2009 – up by 20.58% on a year-to-year basis.

3.4.6 3.4.6 The Group's Profitability

Table 10 Profitability ratios of the LW BOGDANKA Group

Item	4 Qs 2010	4 Qs 2009	Change [p.p.] 2010-2009	Change (2010/2009) [%]
Gross margin on sales	33.30%	31.96%	1.34	4.19
EBITDA	33.69%	32.90%	0.79	2.40
EBIT	22.47%	20.27%	2.20	10.85
Gross margin	23.42%	21.27%	2.15	10.11
Net margin	18.70%	17.06%	1.64	9.61
Return on Assets	8.69%	9.25%	-0.56	-6.05
Return on Equity	12.41%	13.37%	-0.96	-7.18

During the analysed four quarters of 2010, the majority of the profitability ratios regarding the Company's operations achieved higher values than in the same period of the previous year.

Gross margin on sales of the LW BOGDANKA Group increased from 31.96% (for 4 quarters 2009) to 33.30% (for 4 quarters 2010) The increase in that ratio resulted from a higher cost dynamics of revenues relative to the dynamics of products, goods and materials sold.

In the analysed period EBIT amounted to 22.47%, which means an increase by 2.20 p.p. in comparison to the analogous period in the previous year. The change in EBIT indicates that in four quarters of 2010, the value of the Company's revenue was higher in relation to the change in total of costs of products, goods and materials sold, including costs of sales and administrative costs.

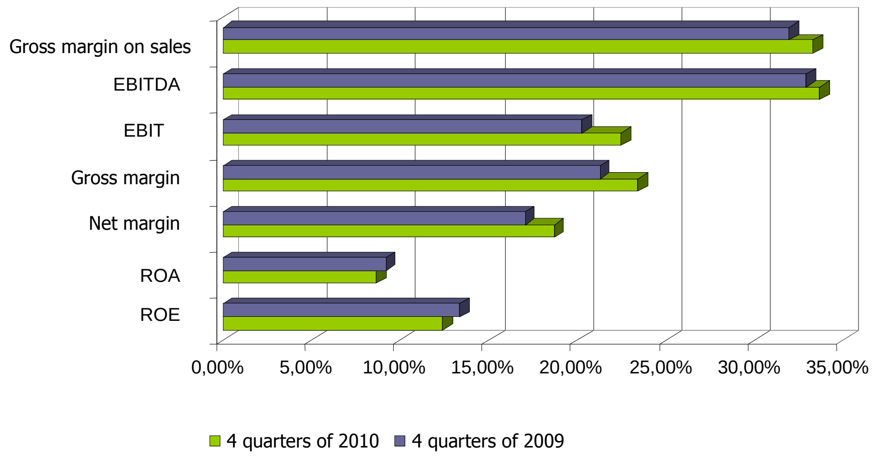
Gross margin for four quarters of 2010 amounted to 23.42% and was 2.15 p.p. higher than the gross margin for four quarters of 2009. An increase in that ratio derives from the operating profit and the results on financial activity being higher.

Net margin on operations within the Lubelski Węgiel BOGDANKA Group amounted to 18.70% for four quarters of 2010 compared to 17.06% for four quarters of 2009 – indicates an improvement of management efficiency in the Company.

The drop in the Group's ROA (from 9.25% to 8.69%) does not mean that the Group's financial situation deteriorated, but rather it is the result of a considerable investment process (e.g. the development of the Stefanów Field) implemented by the Parent Undertaking and expenditure made by Łęczyńska Energetyka – the Group is now producing assets that will generate benefits in the future. The Company's ROA should be expected to fall until all the assets under construction are put into operation.

As was the case with ROA, the drop in the Company's ROE is not indicative of the Company's financial standing deteriorating, but is rather the result of the Company obtaining new capital (by issuing shares in 2009), as well as increasing net earnings of the Group, which, undistributed, is designed for financing the Group's investment programme. The results of the use of this equity will be visible in the following years. The Company's ROE should be expected to fall until all the assets under construction are put into operation.

Profitability analysis



3.4.7 Debt and financing structure of the LW Bogdanka Group

Table 11 Debt ratios of the LW BOGDANKA Group

Item	31 Dec. 2010	31 Dec. 2009	Change (2010/2009) [%]
Overall debt ratio	30.38%	29.59%	2.67
Debt to equity ratio	43.63%	42.03%	3.81
Fixed capital to fixed assets ratio	108.95%	133.14%	-18.17
Short-term debt ratio	14.26%	10.25%	39.12
Long-term debt ratio	16.12%	19.34%	-16.65

As at 31 December 2010 the share of liabilities in the financing of the operations of the LW BOGDANKA Group, measured by the overall debt ratio, amounted to 30.38% compared to 29.59% as at 31 December 2009. The LW BOGDANKA Group's debts did not constitute a threat to its operations or ability to punctually pay its liabilities in the period covered by the consolidated financial statements for four quarters. In the analysed period, the debt to equity ratio decreased from 42.03% to 43.63% (as at 31 December 2010) – which indirectly is a result of an increase by PLN 230,122,000 in equity with a simultaneous increase of the Group's total liabilities by PLN 128,109,000.

The Group's asset financing structure is correct - the long-term liabilities to fixed assets ratio, although down by 24.19 p.p., is still over 100%.

Table 12 Liquidity ratios of the LW BOGDANKA Group (in days)

Item	31 Dec. 2010	31 Dec. 2009	Change (2010/2009) [%]
Current liquidity ratio	2.07	4.50	-54.00
Quick liquidity ratio	1.88	4.23	-55.56

During the period covered with the Annual Consolidated Financial Statements, the Group's liquidity ratios stood at a safe, very high level and the LW BOGDANKA Group does not have any difficulties in fulfilling its obligations. A high level of the liquidity ratios (both as at 31 December 2010 and 31 December 2009) results from the value of cash injected to the Parent Undertaking as a result of the share capital increase (debut at the Warsaw Stock Exchange). Given the pursued investment programme and a successive usage of the obtained funds (which is also reflected by a decrease in analysed ratios by more than 50%), a drop of values of these ratios should be expected to the levels treated as optimum in relevant literature.

Table 13 Turnover rates of the LW BOGDANKA Group (in days)

Item	31 Dec. 2010	31 Dec. 2009	Change (2010/2009) [%]
Stock turnover	24.7	20.5	20.49
Trade debtors collection rate	36.2	41.3	-12.35
Trade creditors payment rate	89.8	74.6	20.38
Operating cycle (1+2)	60.9	61.8	-1.46
Cash conversion cycle (4-3)	-28.9	-12.8	125.78

In the reporting period, the stock turnover rate was higher compared to its level as of 31 December 2009, i.e. 20.5 days against 24.7 days (with a year-to-year increase in the average stock level and in the cost of products, goods and materials sold).

Trade debtors collection rate amounted to 36.2 days (as at 31 December 2010) and 41.3 (as at 31 December 2009). The drop in the rate is attributable to a year-to-year increase in sales revenue (+10.02%) with an increase in the average level of trade creditors (+7.97%).

The operating cycle for current assets (a sum of stock turnover and trade debtors collection rate) in the analysed period was at 60.9 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 89.8 days as at 31 December 2010.

Cash conversion cycle analysis

As a result of the trends described above, a cash conversion cycle of -28.9 days was achieved as at 31 December 2010 compared to -12.8 as at 31 December 2009, and the LW BOGDANKA Group's using non-interest-bearing borrowed capital to a larger extent.

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

In 2010 no untypical factors and events occurred that may have influenced the Group's operations. Events that affected operations and financial results of the Group in the financial year 2010 or which may have influence thereon in the following years have been described in other sections of the Report.

3.4.9 Differences between the Group's financial results disclosed in the annual report and the published result forecasts for a given year

LW BOGDANKA S.A. did not publish forecasts for Company's separate financial results. The description of differences between the consolidated financial results presented in the consolidated annual report for 2009 and the previously published forecasts of the Group's results for 2010 is presented below:

On 24 November 2010 the Company published an update of the financial forecasts for 2010 of the LW BOGDANKA Group in the form of Current Report No. 42/2010.

The table below gives details of selected forecast and achieved items of the consolidated statement of comprehensive income of the LW BOGDANKA Group in 2010.

Table 14 Selected forecast and achieved items of the consolidated statement of comprehensive income of the LW BOGDANKA Group in 2010 (in PLN '000) and the degree to which the forecast was fulfilled (in %)

Forecast item	Forecast for 2010 (in PLN '000)	Achievement in 2010 (in PLN '000)	Fulfilment of the forecast for 2010 [%]
Net revenue on sales	1,237,000	1,230,447	99.47
Operating profit	270,000	276,472	102.40
EBITDA	410,000	414,548	101.11
Net profit for the period	224,000	230,122	102.73

In 2010 net revenue on sales generated by the Group amounted to PLN 1,230,447,000, which accounted for 99.47% of the amount forecast for the entire 2010. The degree to which the forecast operating profit was performed amounted to 102.40%, while the degree to which the forecast EBITDA (operating profit before depreciation/amortisation) was performed amounted to 101.11%. In 2010 net profit of the Group reached the level of PLN 230,122,000 which means that the degree of forecast performed was 102.73%.

A slight underperformance as regards the forecast of the Group's revenue on sales in 2010 is the result of the fact that the parent undertaking limited coal sales in December 2010 and left larger, compared to initially planned, amount of coal reserves on mounds with an aim of securing liquidity of sales in Q1 2011.

In 2010 the parent undertaking achieved a record-breaking result of trade coal production in the Company's history. The level of trade coal extraction reached 5.8 million tonnes.

3.4.10 Agreements concerning the Group's loans and borrowings

In 2010 the Company had one signed loan agreement.

Agreement on working capital non-revolving loan in the Polish currency, concluded with Powszechna Kasa Oszczędności Bank Polski S.A. on 27 May 2008 until 31 December 2009, extended with Annex No. 3 of 29 December 2009 until 31 December 2014 for the amount of PLN 250,000,000. In 2008 and 2009 the tranches were paid on the following dates: On 28 May 2008 in the amount of PLN 50,000,000; on 31 December 2008 in the amount of PLN 20,000,000; on 31 March 2009 in the amount of PLN 50,000,000 and on 30 June 2009 in the amount of PLN 130,000,000. As at the end of 2010 liabilities under the loan in PKO BP S.A. amounted to PLN 250,000,000.

Interest on the loan was: 3M WIBOR + 0.60 pp, the interest on past due debt is 29%, commission for granting the loan 0.40% of the loan amount, payable on used tranches, commission for changing loan maturity date introduced with Annex No. 3 of 29 December 2009, constituting 0.40% of the loan amount. The loan is used for financing current business activities of the Company specified in the Articles of Association, and namely partial financing of investment tasks carried out in 2008-2009, and potential repayment of existing debt. However, the borrower stipulated that it had the right to change the factual purpose of the loan during the agreement term.

Collateral for the granted loan is:

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

Annex No. 3 of 29 December 2009 introduces the Company's obligation to additionally secure the loan if, in the PKO BP S.A. assessment, financial standing of the Borrower and/or capital group deteriorates, resulting in a necessity of making write-downs (according to the IAS) and specific provisions by PKO BP S.A., in a form and value agreed with PKO BP S.A., allowing for not creating the above mentioned write-downs and provisions.

Repayment of the loan changed with Annex No. 3 of 29 December 2009 shall be carried out on the following dates and in the following amounts:

1. 2011 – PLN 50,000,000
2. 2012 – PLN 65,000,000
3. 2013 – PLN 70,000,000
4. 2014 – PLN 65,000,000

The total liabilities of the Company under the incurred loans as at 31 December 2010 amounted to PLN 250,000,000 and referred exclusively to the loan in PKO BP S.A.

The loans were not contracted:

a) against pledge, mortgage or assignment of tangible fixed assets as collateral of a credit line with equivalent exceeding EUR 50,000,
b) against pledge, mortgage or assignment of the organised part of enterprise as collateral of a credit line.

In 2010 Lubelski Węgiel BOGDANKA S.A. made no releases from debt.

In 2010 Lubelski Węgiel BOGDANKA S.A. did not contract or grant any loans or terminate any agreements concerning loans and borrowings.

In 2010 Łęczyńska Energetyka Sp. z o.o. did not contract or grant any loans or terminate any agreements concerning loans and borrowings.

3.5 Information on financial instruments

In 2010 the Group's entities did not use any financial instruments to hedge its exposure to the following risks: price changes, credit risk, substantial cash flow disruptions and loss of solvency. Financial instruments held by the Group are disclosed and described in the Annual Consolidated Financial Statements.

3.6 Information on sureties and guarantees provided and received in a given financial year, in particular sureties and guarantees provided to LW BOGDANKA S.A.'s related entities

In 2010 the Group's entities did not provide any guarantees or sureties.

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

In 2010 there were no off-balance sheet items of the Group.

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

The Lubelski Węgiel BOGDANKA Group draws up consolidated financial statements in accordance with universally binding legal provisions and internal regulations.
As part of the internal audit and risk management system, the process of drawing up the Parent Undertaking's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's

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

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

At LW BOGDANKA S.A. inspection mechanisms were implemented for the purpose of executing the following inspection goals:

- Rights and obligations: Tasks are divided between employees, which enables early identification of errors or malpractice cases.
- Reliability and completeness: All operations and transactions are carried out and recorded correctly from the beginning to the end.
- Compliance with deadlines: Operations are carried out and recorded in registers or computer applications in compliance with the deadlines set out in regulations.
- Valuation and assignment: Assets and liabilities are measured correctly, and profits and costs are disclosed in the correct amounts.
- Presentation and recognition: Assets, liabilities, profits, costs and transactions are correctly classified, described and presented in appropriate documents.
- Monitoring and reporting: Reports containing data and information on the actions and activities carried out are provided to the Company's Management Board on time.
- Confidentiality: Data and information are available to persons, as recipients, on the grounds of their functions and duties within the Company.
- Availability: Systems and computer applications are available during such time as may be required to record operations and transactions.
- Compliance with law: Each process and the systems used in carrying out the process comply with the requirements as set out in laws, regulations and standards.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats concerning the Group. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

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

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW is the parent entity.

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

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

The activity of the Internal Audit and Control Department within the organisational structure, operating pursuant to the Rules of Internal Audit and Control, is also of significance. The internal audit system at Lubelski Węgiel

BOGDANKA S.A. is based on the principle of independence and covers all of the Company's processes, including areas that directly or indirectly affect the correctness of the financial statements.

In order to verify the compliance of the data presented in the financial statements against the factual circumstances and entries in the accounting ledgers maintained by the Company, the financial statements are audited by an independent auditor who issues a relevant opinion. The Company's Supervisory Board elects a certified auditor from the group of reputable auditing companies, in accordance with the guidelines of the Audit Committee, which aimed at ensuring the auditor's impartiality and independence.

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

4. INVESTMENTS AND DEVELOPMENT PROSPECTS FOR THE LW BOGDANKA GROUP'S OPERATIONS

4.1 SWOT analysis for the Group

4.1.1 LW BOGDANKA S.A.

External factors

External development opportunities for the Company:

- Growing global demand for fuel and energy;
- Changes to the state policy with regard to the restructuring of the mining sector – recognition of the significance of coal as a dominant fuel in Poland's energy balance, governmental plans to maintain the production capacity of the coal mining sector and efforts to boost its efficiency;
- Favourable geographical location and the resulting transport allowance for coal buyers;
- Proximity to Poland's eastern border and exports opportunities to the East (Ukraine and Belarus);
- Good relations with stakeholders, no conflicts, close co-operation with local governments;
- Increased scope of independent coal shipments under the license obtained, opportunity to limit the costs of coal transport to the buyers;
- Long-term contracts with key coal buyers;
- Development of clean coal technologies, introduction of zero emission coal production and gasification technologies;
- A state aid scheme for initial investments in the mining industry announced by the government, as a result of which the Company may obtain additional funds for its investments;
- Listing of the Company shares on the Warsaw Stock Exchange, enhancing the transparency of LW BOGDANKA S.A., increasing its credibility in the eyes of business partners and creditors, as well as providing an opportunity to raise additional funds for investments through a public offering.

External threats:

- Consolidation in the mining industry – the emergence of strong business entities stimulating the power coal market;
- Risk of losing business independence due to the consolidation of the fuel and power sector on terms and conditions unfavourable for the Company;
- Government aid for Silesian coal mines undergoing the restructuring process, involving financial support, writing off debt and producer subsidies;
- Imports of cheaper coal from the East (Russia) by industrial business partners
- EU policy on the reduction of CO_2 emissions;
- Strong financial position of coal buyers (commercial power plants), pressure to reduce the Company's sales margin and profit;
- Growing use of alternative energy sources;

- Work efficiency curbed by safety considerations and technology, failing to correspond to the forecast rise in the cost of production means and materials, as well as labour costs;
- Risk related to the scope of property tax on production infrastructure;
- High investment costs of cutting-edge technologies used by the Company – worldwide monopoly of machine and equipment manufacturers.

Internal factors

Internal strengths:

- Mining operations conducted under farmland – limited charges related to mining damage;
- No geological disturbance, straight cut into the deposit, enabling the planning of walls with panel length of 2-5 km;
- Nearly horizontal location of coal seams, possibility of fully mechanised mining;
- Low production cost per 1 ton of coal and the highest underground and general productivity in the sector;
- Continually rising share in the sales of coal to commercial power plants in Poland;
- State-of-the-art machinery and its ongoing modernisation;
- Experienced and well-educated managerial and executive staff and highly-qualified and experienced workforce;
- Positive and stable relations with major coal buyers, reinforced by long-term contracts;
- Good liquidity ratios;
- Opportunities for further restructuring and diversification of business activity.

Internal weaknesses:

- Unfavourable fundamental position (coal depth, temperature hazards, thickness of seams);
- High ash content in coal and the need to enrich coal dust;
- Relatively high content of organic sulphur in the coal deposit (1.0-2.0%);
- Unforeseeable local difficulties with maintaining drifts and mining headings due to high formation pressures and low resistance of the surrounding rock;
- Relatively low share of the hard coal market (7%) as compared to competitive coal companies.

4.1.2 Łęczyńska Energetyka Sp. z o.o.

Moreover, the following factors were identified in Łęczyńska Energetyka that could affect its operations:

External threats

- a persistently low rise in heat prices controlled by the Energy Regulatory Office (URE) in comparison with the rise in inflation,
- rapidly rising refurbishment costs if no modernization is undertaken,
- continuing unfavourable competition from other energy sources (natural gas).

Weaknesses

- significant losses in heat transmission,
- high refurbishment costs,
- no correlation between rising costs (market prices) and income (prices controlled by URE),
- high cost of new connections to the network,
- cost-cutting actions by customers aimed at reducing the demand for the products offered by the Company (thermal efficiency improvement),
- lack of agreement with the local authorities with regard to infrastructure development.

Factors significant for the development of Łęczyńska Energetyka include:

- modernization of the boiler house, converting it into a heat and power station with combined heat and electricity production (meeting all environmental protection requirements),
- opportunity to obtain subsidies for pro-ecological investments,
- expanding the range of services offered in the town of Łęczna (e.g. maintenance services for internal central heating, hot water and water and sewage installations, providing emergency utility assistance),
- executing the conversion of the boiler house into a combined heat and power station, thus entering an attractive electrical power market in view of the forecast surge in electricity prices,
- opportunity to produce aggregates for the construction industry using the combustion by-products from the fluidized bed boiler designed for the heat and power station,
- the interest shown by local producers in the cultivation of energy plants offers an opportunity to secure a steady supply of biomass for the future heat and power station, consequently resulting in the production of attractive "green energy",
- persistently rising prices of liquid and gas fuel make the heat energy offered more attractive.

The operations of the Company will continue to be significantly affected by the laws in force governing the following areas:

- charges and costs related to environmental protection and the use of the natural environment (emitting air pollutants, drawing water from deep wells, disposing treated wastewater into surface waters),
- costs of adjusting energy sources to meet the new, more restrictive norms for air pollution emissions,
- special rules for developing and calculating the heat tariffs and prices for related services,
- the state's pricing policy with regard to managing the fundamental energy resources (such as coal, gas and oil), as well as electrical power.

All factors listed above affect the prices of the Company's sales, production and services, and, consequently, the amount of the Company's revenue.

4.2 The Group's development strategy and policy on development direction

4.2.1 Development strategy of LW BOGDANKA S.A.

A strategic goal for the development of LW BOGDANKA S.A. is to build and enhance the value for the shareholders by means of:

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

The main strategic objectives of development defined by the Company:

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

Strategic objectives of development defined by the Company along with activities planned for 2010-2015:

1) Doubling the level of extraction of hard coal

a) <u>increasing production capacity of the Company by enlarging the Stefanów Field</u>

The major component of the development strategy of the Company is enlarging the Stefanów Field, which will enable the production capacity of LW BOGDANKA S.A. to be doubled, and thus to increase the annual quantity of hard coal extraction, starting from 2011 (from the present 5.8 million tonnes in 2010 to reach the target level of 11.5 million tonnes per annum in 2014).

The main investments related to the enlargement of the Stefanów Field include:

- extension of the mining area
    - Extension of the "Puchaczów IV" mining area by a part of the "K-3" area of approx. 17 km² will enable further mining operations of seam 385/2 and will make new, lower seams 389 and 391 available and ready for mining operations. Total recoverable coal reserves after the extension will amount to approx. 260 million tonnes,
    - Coal extraction from the above mentioned seams in the Stefanów Field will be carried out through the 2.1 lifting and ventilation shaft, the start-up of which is planned for 2011,

- Extension of the Mechanical Coal Processing Plant
    - The aim of the planned extension of the Mechanical Coal Processing Plant is to double the capacity of the Plant from the current level of 1,200 t/h to 2,400 t/h, which will make it possible to increase hard coal production, assuming that the extraction level will double,
    - Implementation of the above mentioned tasks will make it possible to meet market requirements through adjustment of production capacity of the Company and the structure of the coal sold,

b) Increase in employment and human resource management

The strategy of the Company concerning human resources is consistent with the production and investment strategy carried out by LW BOGDANKA. Its priority is to ensure an appropriate (in relation to its production capacity) level of human resources for the Company in the context of the mine enlargement (Stefanów Field) and extension of the Mechanical Coal Processing Plant, as well as the process of acquiring pension rights by the present employees. As a result of pension regulations applicable at the end of 2010, by 2015 about 30% of the Company staff (including mainly employees directly engaged in coal extraction) will have acquired pension rights. Additionally, mining regulations require that employees involved in mining plant operations should possess certain qualifications, the acquisition of which requires, among others, a few years of experience. Consequently, since 2007 the Company has been systematically recruiting new employees in order to acquire the necessary human resources in the context of expected increase in the level of extraction. As a result of these activities, the Company intends to reach the level of employees holding special qualifications to conduct mining works that would be adequate to the planned level of production capacities resulting from the enlargement of the Stefanów Field.

In order to implement the strategy of human resource management, the Company also intends to establish and continue cooperation with schools educating persons with particular qualifications in mining, mechanical and electrical industries.

Additionally, the human resource strategy of the Company provides for undertaking activities aimed at improvement of the occupational health and safety level, through:

- improvement of the occupational health and safety management system,
- providing the employees with training and professional development,
- introducing new solutions as regards monitoring of risks in technological processes and work environment parameters,
- introducing new solutions as regards comprehensive development of work environment,
- introducing new technologies, machines and equipment in production processes.

c) Marketing operations

An increase in the value of LW BOGDANKA will be also favoured by implementation of the Company marketing strategy, aiming at promotion of LW BOGDANKA and its products: hard coal (BOGDANKA brand) and ceramics (EkoKLINKIER brand), leading to the expected sales results.

The Company plans to conduct systematic marketing operations related to search for new consumers for hard coal in order to diversify the structure of contracting parties, and thus to decrease the level of the Company dependency on consumers.

2) Improving the efficiency of hard coal extraction

a) Implementing a plough technique of coal getting in mining longwalls (gaining access to new industrial reserves)

In the first half of 2008, the Company undertook works related to implementation of a plough technique of coal getting in mining longwalls, in thin seams – of less than 1.6 m. Implementation of the above mentioned technique under mining and geological conditions of LW BOGDANKA's mine will enable mining operations of seams of lower thickness than at present (from 1.2 m), and thus, it will increase industrial resources of coal at the disposal of the Company. A coal getting technique applied so far (shearer technique) allowed the Company to reach the extraction of coal at a level of approx. 65 - 70% (ratio of commercial coal extraction from total excavated material). Implementing of a plough technique of coal excavation will enable an increase in the above mentioned ratio to approx. 75 - 80%. The Company started exploitation of the first longwall in a plough technique in 2010.

b) Improving the efficiency of hard coal production

Increase in the production capacities in the Company related to the investment in the Stefanów Field and utilisation of the existing mine infrastructure, including shafts in Stefanów, will enable the Company to improve economic efficiency of hard coal production. Additionally, implementation of the project:

- due to the start-up of a second mining shaft 2.1 in the region of the occurrence of deposit reserves in seams 385/2, 389 and 391 will eliminate the need to construct and maintain dog headings for transporting excavated material from the Stefanów area to the Mechanical Coal Processing Plant in Bogdanka,
- will improve safety of mine operations, since in case of malfunctioning or stopping one of the shafts, the extraction could be carried out through another one.

c) Restructuring and management of non-productive assets

Development strategy of the LW BOGDANKA Group provides for continuation of restructuring operations, the aim of which is to improve organisational efficiency of managing resources held, including assets and human resources. Implementation of restructuring activities should also contribute to improvement of financial liquidity of the Company and reduction of non-production activity costs.

d) Management of by-products

Development strategy of the Company, assuming the growth of production capacities of the mining plant, will lead to the increase in the amount of mining waste and other industrial waste produced by the Company.
According to the estimates of the Company, about 20% (up to 650 000 tonnes) of mining waste will be stored on the storage yard in Bogdanka, where reclamation works will be conducted on an ongoing basis. Other mining waste will be utilised, e.g. to:

- reclaim post-exploitation excavations, wastelands and other post-industrial land,
- modernise local roads, construct road foundation, harden the ground
- construct of watertight structures, including flood banks,
- construct sport and recreation facilities, such as playgrounds, motocross tracks, sledge hills,
- manufacture construction materials in the EkoKLINKIER Construction Ceramics Plant,
- Strategy of the Company as regards by-product management assumes transferring of post-industrial waste suitable for reuse or for recycling to specialised companies or natural persons, and other waste - to specialist companies for neutralisation.

3) Developing electricity production activities

e) Conversion of a heat-generating plant of Łęczyńska Energetyka into a heat and power station

One of the strategic aims of LW BOGDANKA is to ensure self-sufficiency of the mine as regards heat energy supply as a result of constructing a fluidised bed combustion boiler with a turbine-generator unit in the subsidiary Łęczyńska Energetyka. Implementation of the investment programme of Łęczyńska Energetyka "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" has been planned for 2008-2014, in two stages.
The first stage (2008-2010) included preparation investments (conversion of water heaters, construction of sulphur removal system, equipping the heat-generating plant with high-performance dust collectors, construction of water treatment station).
The second stage, planned for 2011-2014, will consists in construction of a fluidised bed combustion boiler along with a pass-out and condensing turbine-generator unit, which are key elements of machinery stock of the heat and power station.
Coal slime (which today is waste) created during the coal cleaning process in the coal processing plant will be used as fuel in the heat and power station. This project also provides for ensuring agricultural-type biomass for the heat and power station in Bogdanka, in the amount necessary to obtain "green energy" certificates through implementation of the programme as regards organisation of procurement contracts for agricultural biomass.

4) Environmental protection measures

In the hard coal mining industry, in which the Company conducts its operating activities, environmental protection measures are particularly important. LW BOGDANKA S.A. holds all necessary permits as regards air protection and water/wastewater management.
In the context of doubling the level of coal extraction starting from 2014, planned by LW BOGDANKA, a systematic growth in mining damage will occur, both in construction objects and in the area of agricultural lands (occurrences of local ground inundation as a result of mining area settlement accompanying the progress of underground works). The Company is planning to conduct complex activities to eliminate the effect of mining operations on the surface area through:

- performing preventive measures to protect buildings against mining damage,
- performing repair works in buildings during and after completing operations,
- reimbursing investors for the costs of adapting new buildings constructed in the mining area to the mining area conditions,
- performing ground drainage works.

One of the main investment tasks in this area will be construction of multifunctional "Szczecin" reservoir. This investment will eliminate effects of ground settlement and will restore a degraded area for use, thus in a significant manner reducing a negative environmental impact of operations conducted by the Company.

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

The Management Board of Łęczyńska Energetyka Sp. z o.o. in Bogdanka has set the following strategic objectives for the Company to be completed until 2015:

Implementation of the investment programme of Łęczyńska Energetyka "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" in stages, i.e.:

Stage I will involve 4 tasks which are described below:

Task no. 1 - Rebuilding and modernization of 5 WR-5 water boilers.

The main objective of these modernization works is to improve the technical condition of boilers, and to adjust them to biomass co-burning.

Task no. 2 – Building desulphuring and dedusting installations, and adjusting the Heat-Generating Plant's infrastructure to the new technological arrangement.

Building dedusting and desulphuring installations for all the modernized water boilers of the Heat-generating Plant in Bogdanka (5xWR-5 and 1xWRp-46/W-28) is aimed at limiting pollution emissions into the atmosphere, and at adjusting the energy source to legal requirements concerning emission standards. Construction works involved in this task were completed by the end of 2010. By 2011 a start-up and a trial launch of the installation will be carried out. Exploitation will begin once positive results concerning measurements of emissions have been obtained.

Task no. 3 – Building the Water Treatment Station (SUW), including process connections with the hydrophore unit and the Heat-Generating Plant area.

The Water Treatment Station, using the water that will come from draining the mine, will be producing potable water, water to make up for heat network losses, and water to make up for losses in the cooling cycle and in the water and steam cycle of the Heat and Power Station being designed.

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

Currently, tendering documentation is being compiled to grant an order to design and build the Water Treatment Station.

Task no. 4 – rebuilding the 110 kV line at the foreground of the 110/6 kV station in Bogdanka.

The 110 kV line will be rebuilt based on the building permit decision that has been obtained for this task, in order to remove the existing 110 kV overhead lines' collision with the Heat and Power Station being designed.

In Stage II, i.e. until the end of the 3rd quarter of 2014, the Heat and Power Station will be built based on fluidal boiler OFz-265 (265 MT/h of steam) and the 77 MWe bleeding and condensation turbine set.

As part of this Stage, the infrastructure will also be built, which will be necessary for the Heat and Power Station to function properly.

Currently, a tendering documentation is being compiled to grant a "turn-key" public procurement order to modernize and extend the Heat-Generating Plant in Bogdanka into a heat and power station with combined heat and electricity production.

4.3 Investments of LW BOGDANKA S.A.

4.4 The Company's investments in fixed assets – implementation of share issue objectives

4.4.1 Investments in 2010 and planned for 2011

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.

In connection with the issue of series C shares, in 2009 the Company obtained proceeds of PLN 528,000,000 (after deducting the costs of issue, BOGDANKA S.A.'s proceeds amounted to PLN 521,051,000). The proceeds from the issue of the Company's shares will allow it to finance, in addition to the investment tasks specified in the Issue Prospectus (objectives of the issue), also other tasks, i.e. performance of mining excavations in the Stefanów Field, construction of storage reservoirs in the Stefanów Field as well as the purchase of a coal mine face complex.

In 2010, the Company spent the total amount of PLN 185,374,000 from the proceeds from C series shares for the implementation of the following investment tasks:

- building excavation and ventilation shaft 2.1 in the Stefanów Field;
- building a system for transporting excavated material from the Stefanów Field to the Mechanical Coal Processing Plant (MCPP);
- constructing the buildings of the Stefanów Field (lifting machine and switch room building of shaft 2.1 and main fans station at shaft 2.1);

– air-conditioning system in the underground part of the Mine.

The table below shows implementation of investment tasks in 2010 and the plan for 2011 broken up into individual tasks.

Table 15 Implementation of investment tasks in 2010 and the plan for 2011 broken up into individual tasks

Item	Investment task	Plan 2010*	Completion 2010	Plan 2011
		[PLN '000]	[PLN '000]	[PLN '000]
1	**Developmental investments, including:**	**488,137**	**367,665**	**437,369**
a	Technical infrastructure at the surface of the Stefanów Field, shaft 2.1, extension of MCPP, other items including:	323,397	204,832	303,682
	- Building the excavation and ventilation shaft 2.1 in the Stefanów Field	*83,553*	*47,989*	*59,520*
	- Extension of the Mechanical Coal Processing Plant	*138,730*	*61,193*	*227,020*
	- Other investments in the Stefanów Field's technical infrastructure, including:	*79,542*	*76,323*	*14,112*
	- Extension of the Bogdanka station's track system	*21,571*	*19,327*	*3,030*
b	Making coal seams available	164,741	162,833	*133,687*
2	**Purchases of finished products investment, including:**	**219,895**	**180,552**	**121,715**
a	Coal-ploughing complex - 1 (panel 1/VI/385)	132,627	134,562	0
b	Purchases of finished products – other assets and intangible assets	87,268	45,990	121,715
3	**Replacement investments**	**60,284**	**40,356**	**105,988**
4	**Environmental protection**	**2,523**	**1,258**	**2,125**
5	**Building and modernisation of workings in the Bogdanka and Nadrybie Fields**	**86,130**	**83,098**	**121,206**
6	**Total investment expenditure**	**856,970**	**72,929**	**788,403**

*The Plan was updated on the basis of analysis of the results obtained by the Company during the first eight months of 2010 and prospects for other months.

Table 16 Tangible and intangible fixed assets placed in service in 2009 and 2010

Group of fixed assets	2009		2010	
	PLN '000	**%**	**PLN '000**	**%**
Buildings and structures	248,924	74.34	146,323	4 0.41
Plant and equipment	70,713	21.12	203,802	5 6.29
Vehicles	8,834	2.64	7,234	2 .00
Intangible fixed assets	4,263	1.27	394	0 .11
Other fixed assets	1,117	0.33	526	0 .15
Land	1,004	0.30	3,809	1.04
TOTAL	**334,855**	**100**	**362,088**	**100.0**

The main objective of the investment plan for 2010 was to continue commenced tasks, aiming at doubling the output, which will be achieved by starting mining using shaft 2.1 in the Stefanów Field.

Investment expenditure for 2010 was planned in the amount of **PLN 856,970,000.**

Implementation of investment expenditure for 2010 amounted to **PLN 672,929,000.**

Plan for 2010 included:

- continuation of the construction of excavation and ventilation shaft 2.1 in the Stefanów Field including associated facilities,
- extension of the Mechanical Coal Processing Plant, including construction of a belt conveyor trestle bridge for the excavated material transport system from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field,

- building of horizontal workings,
- environmental protection investments,
- modernisation of the existing buildings and construction of new ones,
- purchases of finished goods.

Construction of excavation and ventilation shaft 2.1 in the Stefanów Field

In 2010, the following works were performed:

1. Lifting tower with the lift machinery room building of shaft 2.1.
   1.1 The head was adapted in 90% for development of the guiding shank of the lifting tower.
   1.2 Foundations of the circulation core of the shaft tower were completed.
   1.3 Foundation slab for the circulation core of the shaft tower was completed.
   1.4 Ventilation duct connecting shaft 2.1 from the level of -15.4 m to the building of the fans station was completed.
   1.5 Construction of the reinforced concrete circulation core of the lifting tower began.
   1.6 Merging of the steel construction of the lifting tower shaft began.
   1.7 About 75% of the steel lifting tower was constructed; deliveries to the construction site will take place successively, as the work progresses.
   1.8 About 80% of the construction of the lift machinery room building was completed and delivered to the construction site.
2. Lifting equipment of shaft 2.1.
   a) The mechanical part of the lifting equipment of shaft 2.1 was assembled and commissioned.
   b) The electrical part of the lifting machine of shaft 2.1 was assembled and commissioned to the extent allowing installation of ropes and adjustment of the lifting facility.
   c) Equipment elements for the mining shaft lifting equipment (load bearing ropes, compensatory ropes, suspensions of gin tubs, suspensions of compensatory ropes). Skipping tubs of the mining shaft lifting equipment were completed and collected from the producer, rope pulleys of the mining shaft lifting equipment are in the implementation stage.
3. Shaft and loading equipment.
   - Working designs are being prepared – execution status is about 80%.
4. Construction of storage reservoirs in the Stefanów Field – storage reservoir 2fS – the final part of the reservoir, the so-called chimney, is being performed, storage reservoir 1fS – performance of the head cut began.

Planned expenditure for construction of excavation and ventilation shaft 2.1 in the Stefanów Field amounted to **PLN 83,553,400.** They were implemented in the amount of PLN **47,989,487.** The difference between the plan and its implementation of about **PLN 35.5 million** was caused by delays in the performance of the contract for "Performance of civil engineering and working designs and construction of the shaft 2.1 tower, lift machinery room building, foundations of B1110 A winch, foundation of a friction lift EPR 1000, ventilation duct, roads, yards, tracks and area lighting in LW BOGDANKA S.A. the Stefanów Field" by PEMUG S.A. and at the same time by rescheduling some works which depended on the construction of shaft 2.1 tower.

Extension of the Mechanical Coal Processing Plant

In 2010, the following works were performed:

1. Task no. 2 – Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h – tendering procedure was completed in 2010. Building contractor was selected – Mostostal Warszawa S.A. and Acciona Infrestrukturas S.A. consortium. The contract was signed on 29 June 2010 for implementation of the investment within 18 months of signing the contract.

   a. Currently, the stage of working design is being implemented.
   b. As regards construction works, foundations for facilities 109.1 and 109.2 were completed, as well as earthworks with sand bed for foundations of facilities 103.1/106.1 and 14.4 [execution status for the earthworks of the above mentioned facilities is 50%]. Demolition works of the existent foundations of facility 16.3/16.4 commenced.
2. Task no. 1 – Construction of the excavated material haulage system from the Stefanów Field to MCPP.
   a. Execution status for building construction works is about 80%.
   b. Installation of machines and equipment in building facilities is under way.
   c. Installation of power supply system in building facilities is under way.
   d. Installation of the central heating system in the conveyor belt (facility 207.2) is under way.
   e. Contracts for additional works were signed with the contractor – Polimex – Mostostal S.A.:
      - Performance of an additional entry to the pumping station building in the Stefanów Field;
      - Performance of construction works consisting in additional thermal insulation of the excavated material haulage facilities S 2.1;
      - Performance of construction works consisting in adjusting foundations of the facilities for the excavated material haulage from shaft 2.1 to the requirements of the "Wind load" standard;
      - Performance of construction works consisting in adjustment of heating system to construction conditions of conveyor bridges.
3. Extension of the coal storage area – procedures connected with approval of the Land Development Plan for the Puchaczów Commune are under way.

The expenditure planned for extension of the Mechanical Coal Processing Plant amounted to **PLN 138,730,000**. It was implemented in the amount of **PLN 61,193,192**. The difference between the plan and its implementation of about **PLN 77.5 million** was caused by:

- delays in the performance of the contract for the construction of the excavated material haulage from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field in Lubelski Węgiel BOGDANKA S.A.;
- delays in the performance of the contract for extension of the Mechanical Coal Processing Plant in Lubelski Węgiel BOGDANKA S.A.;
- impossibility to carry out design works as regards coal storage area due to prolonged procedures related to the approval of the Land Development Plan for the Puchaczów Commune.

Construction of buildings in the Stefanów Field

In 2010, the following works were performed:

1. The lifting machine and switch room building of shaft 2.1 was constructed and reported for acceptance by appropriate construction supervision authority.
2. The main fans station at shaft 2.1 – the base stage of the building part of the facility was completed, assembly of a mechanical part of main fans was commenced (deliveries completed in 100%), deliveries of the electrical part of equipment commenced.
3. The lifting machine supply switch room of shaft 2.1 – switch room 6 kV, 500 V and 400 V were completed and commissioned. 110 kV equipment of the field is being installed.
4. Extension of the OHS complex (3rd and 4th floor) is under way.
5. A car park was completed.

The expenditure planned for extension of the Mechanical Coal Processing Plant amounted to **PLN 42,646,130**. It was implemented in the amount of **PLN 37,878,900**. The difference between the plan and its implementation of about **PLN 4.7 million** was caused by delays in performance of the contract to prepare civil engineering and working designs and the construction of shaft 2.1. tower, the lift machinery room building for shaft 2.1.

Central air-conditioning system of the Stefanów Field

In 2010, construction of the basic part of the air conditioning station was completed – a certificate of occupancy for the air-conditioning station was obtained. Main face air-conditioning devices were delivered in 100%. Underground pipelines for the cooling system are being installed.

The expenditure planned for construction of the central air-conditioning system of the Stefanów Field amounted to **PLN 36,896,300**. It was implemented in the amount of **PLN 38,443,879**. An increase in expenses by **PLN 1.5 million** was caused by accelerating implementation of the construction of pipelines to mining fields.

In 2011, the plans are to start up the basic part of the air conditioning station. Works will be continued to install cooling system pipelines in underground workings with successive development of main face air-conditioning devices.

Extension of the Bogdanka station's track system

Execution status of the construction is 100%. In 2001, the equipment was accepted.

Making coal seams in the Stefanów Field available

In 2010, the following works were performed:

1. Workings at a level of 990 in the Stefanów Field – drilling works of all workings at a level of 990 were completed; rebuilding of detour W will be completed in the first quarter of 2011. In the first half of 2011, development of main haulage to storage reservoirs will be completed.
2. Ventilation and transport workings – basic ventilation and transport workings will be completed in 2011. Drilling of ventilation heading 1/VIII/385 was completed in November.
3. Workings in seam 385/2 to start up the first panel 7/VII in the Stefanów Field – drilling of the over-panel heading 7/VII, panel cross-heading 7/VII and under-panel heading 7/VII were completed. Works at the construction of the conveyor haulage and reinforcement of the panel heading are going on.
4. Workings in seam 385/2 field VII – under-panel heading 5/VII – 1504 m; under-panel heading 6/VII – 671.0 m - drilling works are under way.
5. Workings in seam 385/2 field VIII – at the turn of the year, drilling of main gate workings for the other panel in the Stefanów Field, i.e. 1/VIII/385, will commence.

Purchases of finished goods

1. Reinforcement of panel 1/VI inseam 385 – providing it with a coal-ploughing complex that covers powered lining sections, longwall scraper conveyor, mining plough, 3.3 kV supply and control facilities, and bottom road scraper conveyor. In 2009, advance payment costs were incurred in the amount of 10% for the coal-ploughing complex and assembly of scraper conveyor and partial assembly of the panel lining. Panel reinforcement works were completed in the first quarter of 2010, and on 1 April 2010 its exploitation started, obtaining very good progress and the assumed efficiency. In October 2010, the coal-ploughing complex completed work in panel 1/VI/385 and will be moved to panel 7/VII/385, after previous extension to 305 m. The complex will be run again in June 2011.
2. The main purchase items are:
   - Coal-ploughing complex
   - Belt conveyors
   - Underground transport means (suspended locomotives, transport sets, mobile hoists, sets for transporting people, containers, trolleys, timber carriers)
   - Transformer stations and switch-off facilities
   - Hydraulic pumps and power packs
   - Coal cars
   - Anchoring trolley
   - Panel cooling facilities
   - Roadheading machines
   - Establishment of the perpetual use of land

The planned expenditure amounted to **PLN 219,895,165**. It was implemented in the amount of **PLN 180,551,636**. The difference between the plan and its implementation of about **PLN 39.3 million** was caused mainly by rescheduling expenses related to the purchase and installation of conveyor belts for the construction of the main haulage in the Stefanów Field and conveyor haulage 1200 to panel 7/VII/385 in Stefanów for 2011.

Replacement investments

In 2010, the following works were performed:

1. Construction of buildings in the Bogdanka and Nadrybie Fields.
    a. Extension of the administration building (Management) – facility under construction, planned date of completion: 15 June 2011.
    b. Modernisation of shaft umbrella roof building – facility under construction, planned date of completion: 15 February 2011.
    c. Power supply to the shaft umbrella roof building and the Management Building - the task was completed.
2. Modernisation of the existing buildings.
    a. The OHS complex in Nadrybie – modernisation of the pithead building was completed and modernisation of the bath was rescheduled 2011.
    b. Yard of the TMA department under the overhead crane in Bogdanka, extension of the car park in Bogdanka, ventilation channels of shaft 1.4 in Nadrybie – facilities were commissioned.
    c. Roads and yards around the main warehouse – task under execution.
    d. Roads and yards in the vicinity of shaft 1.2 – the task was rescheduled for 2011 (too high bids).
    e. Yard of the HLM department under the overhead crane in Bogdanka – modernisation of the square was completed, the fencing remains to be completed.
    f. Stary Tartak training centre – contract for work performance was signed, date of completion: 15 June 2011.
    g. Modernisation of the workshop building – documentation was compiled; the implementation is planned in 2011-2012.
3. Switch room facilities for lifting machines and other power systems.
    a. Modernisation of 220 V battery sets in switch rooms 110/6 kV GSTR and 6 kV STR M3 in Bogdanka and synchronisation of the operation time for fans of shaft 1.3. were completed.
    b. Driving system for controlling and braking the lifting machine in shaft 1.2 – under execution.
4. Supply and control systems of the equipment and workshops.
    a. Electrical devices and installations of the mechanical workshop on R25, electrical devices and installations of the electrical workshop on R25, extension of the lamp room in Bogdanka – tasks were completed.
    b. Other tasks under execution.
5. Telecommunication systems and devices – under execution.
6. Alarm and monitoring systems – camera system in the shaft station of shafts 1.2 and 1.4 was completed, fire alarm system in the building facilities of the Company - under execution.
7. Modernisations of mining machines, the main items being:
    – transformer stations - completed,
    – control systems of Bevex locomotives - under execution,
    – panel lining Glinik 15/32 - under preparation,
    – internal combustion locomotives S-200 - under preparation.
8. Repair of machines and equipment, the main items being:
    – longwall coal-cutting machine JOY 4LS8 - completed,

- longwall scraper conveyor - under preparation,
- repairs of coal cars - under execution,
- heading coal-cutting machine AM-75 - completed

9. Power and telecommunication cable networks – facilities under construction.
10. Replacement investments in MCPP – installation of ventilation in switch rooms in MCPP – task completed.
11. Other replacement investments – extension of roofing over the access to the top-loading grating – the task was completed.

The planned expenditure amounted to **PLN 60,284,270**. It was implemented in the amount of **PLN 40,356,536**. The difference between the plan and its implementation of about **PLN 19.9 million** was caused mainly by:

- Rescheduling for the completion deadline for the construction of the Management building;
- Rescheduling for 2011, due to ongoing work at the extension of MCPP of the task "Roads and yards in the vicinity of shaft 1.2 in Bogdanka";
- Rescheduling for 2011, due to changes in the plan of mining works of the task "Installations and electrical and mechanical devices for a new depot of battery locomotives and the battery charging room for R 27 level 960 in Bogdanka", and the task "Electrical equipment, installations and mechanical devices in the heading to turmag 1fN at a level of 864 in Nadrybie";
- Rescheduling for 2011 of modernisation of Glinik 15/32 lining.

Environmental protection

In 2010, works related to the following were continued:

1. Compiling building and working designs for expansion of the mining waste dump.
2. Compiling building designs for the construction of storage reservoir Szczecin.

Building and modernisation of workings in the Bogdanka and Nadrybie Fields

In 2010, the following works were performed:

1. Main gate workings in the Bogdanka and Nadrybie Fields – drilling of the over-panel heading for panel 4/IV/385, over-panel heading for panel 2/II, over-panel heading 2 panel 2/II and cross-heading of panel 2/II, other workings under drilling or under preparation for execution. Experimental maintenance of under-panel heading 1/VI/385 after advance of panel 1/VI is being carried out, to make it possible to use it as the over-panel heading for panel 2/VI/385.
2. Other workings (shotcrete in water heading 5 and delivery heading 1/VI) – drilling was completed. Performance of heading R-27 – under execution.
3. Modernisation and rebuilding of mining workings – task under execution.
4. Modernisation of storage reservoirs – modernisation of 1fB storage reservoir and the Granby reservoir was completed. Documentation for modernisation of reservoir 3fB, the execution of which will take place in the first part of 2011 – compilation is under way.

Investments planned for 2011

Investment expenditure for 2011 is planned in the amount of **PLN 788,403,000.**

The basic aim of investment activities in 2011 is to complete the tasks that have been commenced, aiming at doubling the output, which will be achieved by starting up in 2011 excavating works using shaft 2.1 in the Stefanów Field and a bridge to transport the excavated material from the Stefanów Field to MCPP in Bogdanka.

The plan for 2011 includes:

- continuation of building the excavation and ventilation shaft 2.1 in the Stefanów Field including associated facilities,
- extension of the Mechanical Coal Processing Plant, including building a belt conveyor trestle bridge for the excavated material transport system from shaft 2.1 in the Stefanów Field to the Mechanical Coal Processing Plant in the Bogdanka Field,

- building horizontal workings,
- environmental protection investments,
- modernisation of the existing buildings and construction of new ones,
- purchases of finished goods.

Building of excavation and ventilation shaft 2.1 in the Stefanów Field.

In 2011, it is planned to:

- Complete works related to completion of the construction of the shaft tower and shaft station facility of shaft 2.1:
  - execution of the reinforced concrete circulation core for the lifting tower,
  - installation of steel construction for the lifting tower,
  - construction of foundations and installation of steel construction of the lift machinery room building,
  - placement of equipment in the lift machinery room building.
- Execute works related to the completion of assembly and commissioning a lifting device of shaft 2.1:
  - placement of mining equipment elements for the shaft lifting facility, with installation of ropes and tubs,
  - performance of shaft signalisation of shaft 2.1,
  - adjustment of the lifting facility of shaft 2.1.
- Execute works related to building of shaft and loading facilities.
- Execute works at the construction of storage reservoirs:
  - construction of reservoir 2fS is planned to be completed in February 2011,
  - construction of reservoir 1fS is planned to be completed in November 2011.

    In January 2011, the procedure of selecting the contractor for reservoir 3fS will begin.

Extension of the Mechanical Coal Processing Plant

In 2011, it is planned to:

1. Complete the undertaking: Task no. 1 – Building the excavated material transport system from the Stefanów Field to MCPP.
2. Perform the undertaking: Task no. 2 – Extension of the MCPP processing capacity from its current level of 1200 up to 2400 t/h.
3. Prepare the concept of developing the existing coal storage area and selecting a contractor for the construction and working design.

Construction of buildings in the Stefanów Field

In 2011, it is planned to:

1. Complete works related to the construction of main fans station at shaft 2.1.
2. Complete, in February 2011, works related to the construction of transformer and switching station STR-M 2.1 in Stefanów.
3. Complete the extension of the OHS complex.
4. Execute other construction and design works.

Central air-conditioning system in the Stefanów Field

In 2011, the plans are to start up the basic part of the air conditioning station. Works will be continued to install cooling system pipelines in underground workings with successive development of main face air-conditioning devices.

Extension of the Bogdanka station's track system

Completion status for the construction is 100%. In 2011, the exuipment was accepted.

Making coal deposits in the Stefanów Field available

In 2011, the expenditure for the following investment tasks are planned:

1. Performance of mining excavations of level 990, mainly allocated for installation of devices;
2. Completion of ventilation and transport workings in seam 385/2 – Stefanów;
3. Workings in seam 385/2 for starting up the first panel 7/VII – Stefanów;
4. Building of workings to make available seam 385/2 field VII – Stefanów;
5. Building of workings to make available seam 385/2 field VIII – Stefanów.

Purchases of finished goods

1. In June 2011, start-up of the coal-ploughing complex in panel 7/VII is planned (after previous extension of the panel up to 305 m).
2. In 2011, it is planned to commence the tendering procedure for the purchase of the second coal ploughing complex.
3. Main items in the A group – purchase of equipment
   - Transport devices – include equipment for transport with suspended creepers, i.e. transport sets, transport hoisting winches, braking carriages and transport units of underground rail system, i.e. trolleys, timber carriers, containers, carriers for transporting euro-pallets;
   - Hydraulic pumps and power packs – this group includes impeller pumps for drainage of mining workings, pumps for bonding the rock mass, pumps for supplying the binding material and hydraulic power packs to supply tightening tools and anchoring devices;
   - Electrical equipment – purchase plans in this group include transformator stations, sets of termination fields and electrical engines;
   - Other purchases;
   - Purchases in the Building Ceramics Plant.
4. Main items in the B group – purchase of machines and equipment
   - A mine face complex to drill main gates in the Stefanów Field - planned value of expenses is about PLN 37,965,600, including heading coal-cutting machine AM105 class, drilling and anchoring crawler platform, equipment for lining development, scraper conveyor, dust collector and electrical equipment.
   - Purchase and installation of suspended internal combustion locomotives;
   - Purchase and installation of ventilation stoppings;
   - Purchase and installation of belt feeders;
   - Purchase and installation of belt conveyors;
   - Purchase and installation of mining devices;
   - Purchase and installation of shunting carriages;
   - Purchase and installation of scraper conveyors;
   - Purchase and installation of roadheading machines;
   - Purchase and installation of dust collectors;
   - Purchase of other equipment.

Replacement investments

In 2011, the expenditure for the following items is planned:

1. Construction of buildings in the Bogdanka and Nadrybie Fields, including:
   a) **Completion of the extension works** on the administration building (Management);
   b) **Completion of the modernisation** of shaft umbrella roof building;
   c) Development of the gantry crane and performance of the yard surface of about 3,000 m2 in the Nadrybie Field.

2. Modernisation of the existing buildings, including:
   a) Modernisation of the OSH complex in Nadrybie – repair of the bath, 3rd and 4th floor (roof, facade);
   b) Modernisation of roads and yards in the vicinity of shaft 1.2 in Bogdanka;
   c) Modernisation of the workshop building in Bogdanka (WARBO);
   d) Modernisation of the lamp room in Nadrybie;
   e) Extension of the car park in Nadrybie;
   f) Modernisation and thermal insulation in the MW storage area in Albertów;
   g) Modernisation of the KSRG building.
3. Structures of the 110 kV station switch rooms, lifting machines and other power systems, including:
   a) Completion of modernisation of the lifting machine control and braking driving system and of signalisation in shaft 1.2;
   b) Completion of modernisation of one emergency-inspection B 1100A lifting facility and modernisation of the other facility;
   c) Commencing tendering procedures for modernisation of 110/6 kV power stations in the Bogdanka, Nadrybie and Stefanów Fields (the works will continue until 2015);
   d) Constructing the control, visualisation and monitoring system for pumps in the main drainage pumping station at a level of 960.
4. Supply and control systems of the LV equipment and workshops.
5. Installation of new mining.
6. Modernisation of mining machines, including:
   a) Modernisation of coal-cutting machine AM-75;
   b) Modernisation of internal combustion locomotives LZH-50 Scharf;
   c) Modernisation of suspended locomotives Bevex 60;
   d) Modernisation of Glinik 15/32 lining.
7. Repair of machines and facilities, including:
   a) Periodical repairs of cars;
   b) Periodical repairs of S-200 locomotives.

Environmental protection

In 2011, the expenditure is planned mainly for the following items:

1. Extension of the mining waste dump – works connected to compilation of the extension works documentation and buying back areas to extend the waste dump will be carried out;
2. Small "Szczecin" reservoir – works connected to preparation the building site documentation and buying back the areas where the reservoir is to be constructed are carried out.

Building and modernisation of workings in the Bogdanka and Nadrybie Fields

In 2011, the expenditure for the following items is planned:

1. Building main gate workings in Bogdanka and Nadrybie Fields;
2. Building other workings in Bogdanka and Nadrybie Fields;
3. Modernisation of workings;
4. Modernisation of storage reservoir 3fB in the Bogdanka Field.

4.4.1.1 Assessment of the possibilities of investment plans' execution

The Company plans that the structure of financing its property investment expenses will remain unaltered, i.e. they will mainly be financed from its own funds, in particular the funds that it acquired from the issue of shares, which took place in 2009. The Management Board does not preclude the possibility to increase the value of its interest-bearing debt, which will be dependent upon the owner's policy as regards the division of profit for the financial year 2010 (dividend policy) as well as the scope and the pace of completion of the property investments planned. As at the date of drafting this information, the Company sees no threat as to the possibility to acquire its additional financing in the form of debt. As at 31 December 2010 the Company's current loan in the amount of PLN 250 million constituted nearly 13% of the shareholders' equity (PLN 1,958 million) and approx. 9% of the balance-sheet total.

4.4.1.2 Capital expenditure and investments

Lubelski Węgiel BOGDANKA has not carried out any capital expenditure in 2010.

In 2010 the Company created bank deposits out of the surplus cash in the banks, where it holds its bank accounts. More information on the bank deposits is provided for in section 3.1. of the Consolidated Financial Statements of the LW BOGDANKA Group for 2010.

4.5 Investments of Łęczyńska Energetyka Sp. z o.o.

4.5.1 Investments in 2009 – 2010 and assessment of the Company's possibilities to enforce its investment plans

Investment tasks completed in 2008-2010 included:

- purchase of machines and facilities necessary for production purposes,
- necessary modernization of buildings, structures and machines,
- purchase of vehicles for the supply department.

The total amount of investment expenditure incurred in 2008-2010 amounted to PLN 21,348,000. In the discussed period of three years, expenditure on modernization of buildings and structures, which amounted to PLN 20,590,000, thus making up 96.45% of all expenditure, was the item of the highest value on the list of investment expenditure.

The table below presents the value of investment expenditure incurred in 2009-2010 broken down by groups of fixed assets:

Table 17 Value of investment expenditure incurred in 2009 - 2010 broken down by groups of fixed assets

Group of fixed assets	*2009*		*2010*	
	PLN '000	*%*	*PLN '000*	*%*
Own land	-	-	-	-
Buildings and structures	4,775.0	94.8	3,270	57.9
Machinery and equipment	234.0	4.6	2,232	39.5
Vehicles	-	-	126	2.2
Intangible fixed assets	-	-	3	0.1
Other	30.0	0.6	17	0.3
TOTAL	5,039.0	100.0	5,648	100.0

The modernisation of buildings and other structures within the above period concerns the following fixed assets:

1) modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production,
2) modernisation of sewage treatment plants in Bogdanka and Nadrybie,
3) modernisation of a hydrophore plant in Nadrybie,
4) modernisation and alteration of a hydrophore plant building in Stefanów,
5) modernisation and extension of Kalnica Guesthouse buildings and construction of a car park,
6) replacement of a heat distribution network and a water supply network within the grounds of the mine (Bogdanka and Nadrybie),
7) modernisation of a W-2A heat exchanger plant in Łęczna and of a W-5 heat exchanger plant,
8) modernisation of a low-parameter central heating and hot water supply network at W-1 in Łęczna,
9) modernisation of a low-parameter central heating and hot water supply network at K-2 in Łęczna,
10) modernisation of the lighting system for a boiler house chimney in Bogdanka,

11) hardening yards at WA-2 and W-1 in Łęczna,
12) construction of a discharge chamber for wastewater and rainwater in Bogdanka,
13) modernisation of a heat supply main to Łęczna,
14) modernisation of the offices for a boiler house in Bogdanka,
15) replacement of a section of an NS network,
16) modernisation of potable water pipelines from the water intake to the water purification plant,
17) construction of new potable water network sections (in the area of the offices of LW BOGDANKA S.A.'s Management Board and the outpatient clinic),
18) modernisation of water intakes – replacement of filter beds in Bogdanka and Stefanów,
19) modernisation of a rainwater intermediate pumping station in Bogdanka,
20) modernisation of rainwater removal network sections (in the area of the Mechanical Coal Processing Plant; near the storage reservoir).

In 2008-2010, the investments were financed from own funds.

Łęczyńska Energetyka's priority investment task for 2010 was to adjust its Heat-Generating Plant in Bogdanka to legal requirements that result from Directive 2001/80/EC upon limiting emission volumes of certain gas and dust pollutants into the atmosphere. Requirements as defined in Annex XII Point D of the Accession Treaty obliged the Company to adjust its Heat-Generating Plant to emission standards being in force by 31 December 2010 at the latest; therefore in the Scheduled Program of the "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production" project, it has been envisaged to complete the tasks meeting the above-mentioned requirements.

Task no. 1 Alteration and modernisation of 5 WR-5 water boilers; The project to modernise 5 WR-5 water boilers was completed in 2010, while the project to modernise the accompanying equipment and systems (replacement of fume exhaust fans with the use of inverters, modernisation of control cabinets, completion of the alteration of fume ducts, including their insulation) will be continued and completed in 2011.

Task no. 2 Building desulphuring and dedusting installations, and adjusting the Heat-Generating Plant's infrastructure to its new technological arrangement. Construction works involved in this task were completed by the end of 2010. By the end of February 2011 a start-up and a trial launch of the installation will be carried out. Exploitation will begin once positive results concerning measurements of emissions have been obtained;

In order to perform these tasks, the amount of approx. PLN 17.9 million, has been allocated in the Company's investment expenditure plans, out of which the amount of approx. PLN 14.8 million was spent by the end of 2010.

Commencement of works involved in Tasks No. 3 and No. 4 depends on completion of the project's financing process. In order to accelerate the commencement of construction works, a tendering procedure is currently in progress, as a result of which a Water Treatment Station contractor will be selected.

The funds that the Company owns will also make it possible to complete the remaining two investment Tasks in 2011 - 2012 that have been planned to be completed in Stage I, which will initiate the Heat and Power Station building process and at the same time make its construction possible. The amount of investment funds allocated to complete these tasks has been defined at approx. PLN 24.2 million.

The completion of the Stage II of this investment that is of key importance for the Company is to be financed with an external source of financing (a consortium loan).

4.5.2 Capital expenditure and investments

In 2010 the subsidiary made no significant capital investments. The subsidiary deposited free cash in bank deposits with maturity of 1 month and 3 months. An average balance of cash in bank deposits amounted to PLN 25 million.

4.6 The Group's research and development and implementation works

In 2009, the following research and development works were performed in the LW BOGDANKA Group:

In 2010, the following research and development as well as implementation works were performed in the Company:

1. The plough technique was introduced successfully for coal mining in mining panels of thin seams – 1.2-1.7m thick. In 2010 the first exploratory panel was started with the use of coal ploughing technique, after preparation works performed in 2008 and 2009. The panel had good exploitation results, reaching the average output, in the whole period, of 8,200 tonnes per day, and the maximum level of 16,900 tonnes per day. The positive results reached in panel 1/VI gave rise to the development of coal ploughing technique in LW BOGDANKA.

   In 2011 a tender will be held for the purchase of the second complex, for the panel planned for starting in 2012.

   Introduction of the coal ploughing technique, apart from creating the possibility to extract thin seams, should lead to a better quality of the run-of-mine coal through better extraction of deposits and decreased amounts of waste rock extracted together with coal.

2. In 2010 works were conducted for the special purpose research project No. 6 ZR8 2007 C/06998 entitled "Designing a comprehensive model and information software to conduct continuous measurements of GNSS, locations of points at the surface of Lubelski Węgiel BOGDANKA's mining areas and excavating facilities in order to determine deformation changes caused by both current and prospective underground mining exploitation processes". A tripartite agreement to execute the project has been concluded with the Ministry of Science and Higher Education in Warsaw and the University of Science and Technology in Kraków in June 2009, which covers the period of 3 years.

3. Exploratory and implementation works were continued in order to create the basis for changing the present exploitation system, in which both longwall headings are liquidated at the time of longwall exploitation. On the basis of research and development works performed in the previous year, in 2010 an attempt was made to maintain the panel heading downstream the front of the panel 1/VI of seam 385/2, protected by a special belt designed for this heading. After positive preliminary results, the heading was maintained on the whole panel length, i.e. on 1,750m. In 2011 further works will be performed in order to analyse the experience gained for the benefit of providing further solutions in terms of maintaining headings behind the longwalls.

4. In the financial year 2010, the works on implementation of an innovative solution were continued, to allow the Company to place in the excavated areas the rock from preparation works. Based on basic headings, prepared with the standard arch yielding – support casings, exploitation with use of the heading system will be continued. These workings will be introduced in anchor casings with rectangular cross-sections. The post-exploitation area will be filled with rock. After gaining appropriate experience, the expansion is planned for the scope of activities, by filling the workings with dangerous waste, admissible by law to be stored in the mine pit. The first stage is planned to include the launch of one excavation complex. In the case of positive results, it is assumed that more exploitation complexes will be launched. The aim is to develop a system to the capacity which will allow all the rock from preparation works to be placed there.

5. In 2010 works were performed on the new technology of drilling the corridor workings with the use of a high-powered heading coal-cutting machine. AM-75 cutting machines are used in the present technology of drilling. The new MR-105 machine will have additional equipment for anchoring and installing the casing, which will allow to perform certain works in the heading-drilling cycle simultaneously. The new machine and prepared technology will allow in the future to increase the progress of drilling of corridor workings. The new technology is planned to be introduced in the Stefanów Field at the turn of 2011/2012.

4.7 Description of risks, threats and factors which, in the assessment of LW BOGDANKA S.A., will affect the results achieved by the Group within at least the following year

4.7.1 Risk associated with the Group's market environment

4.7.1.1 Risk associated with the social and economic situation in Poland and the world

The 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 case of significant deterioration in the economic situation of recipients of power coal, or in relation to deterioration in the economic situation in Poland, which would result in decreased demand for electrical and thermal energy, the financial results achieved by the Group may deteriorate. However, due to the fact of having long-term trading agreements, which oblige the recipients to meet certain levels of purchase of power coal, the risk of significant deterioration of the results is minimal. This thesis can be confirmed by the fact that regardless of the changes in the macro-economic situation in Poland and in the world, the LW BOGDANKA Group has been consistently achieving positive financial results since 1994.

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

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

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

Implementation or amendment of the adopted assumptions may have a significant impact on the future competitive position and financial results of LW BOGDANKA. Currently, an important element of risk in this area is the outcome of the privatisation process of ENEA S.A., i.e. the sale by the State Treasury of 51% of shares in the Company. Depending on the choice of investor by the State Treasury, there is a risk of change in the existing strategy of development of "Kozienice" Power Station and the anticipated increase in power generation capacity of the "Kozienice" Power Station, which is currently the main coal recipient of the Company.

LW BOGDANKA S.A. carefully monitors this process (privatisation of ENEA S.A.) and in case the above mentioned threats materialise, it will undertake preventive measures aiming at achievement of the planned results of operations.

4.7.1.3 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, mainly including the prices of power coal and raw materials which constitute an alternative to power coal (crude oil, natural gas, renewable sources) on global markets and therefore on the domestic market, have key significance for the activities conducted by the LW BOGDANKA Group. The current, very difficult political and economic situation in North African countries (Tunisia, Egypt, Libya) may result in limiting the supplies of fuels for power generation purposes, mainly crude oil, which can trigger an increase in the prices for energy source materials on the world markets, including coal, which may affect the financial results of the Group.

The Group 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 2010 and after the balance-sheet date is presented in section 3.1 of the Report.

4.7.1.4 Risk associated with the introduction of the excise tax in relation to coal

In accordance with the regulations of the European law, Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, and Council Directive 2004/74/EC of 29 April 2004 amending directive 2003/96/EC as regards the possibility for certain Member States to apply, in respect of energy products and electricity, temporary exemptions and reductions in the levels of taxation, an obligation to cover coal, natural gas and electricity with the excise tax was imposed on the Member States. Council Directive 2003/96/EC introduced minimum levels of excise tax rates, which apply, among other things, to coal and coke. In compliance with the latter directive, the Republic of Poland may apply a transitional period until 1 January 2012 in order to adjust the national tax levels applicable to coal and coke to the relevant minimum tax level. During the transitional period, the excise tax applicable to coal and coke will not be charged. The regulations which will become effective after the lapse of the transitional period referred to above, i.e. from 1 January 2012 on, may result in higher prices of coal for end users and thus a diminished coal competitiveness with respect to other energy carriers, which in turn may have an adverse effect on future financial results of all entities operating in the hard coal mining industry in Poland, including the LW BOGDANKA Group.

4.7.1.5 Interest rate risk

The LW BOGDANKA Group is a party to financial agreements based on variable interest rates, therefore it is exposed to a risk of fluctuations in interest rates with respect to loans incurred, as well as in the event of contracting new loans or refinancing the existing ones. A possible increase in interest rates may result in an increase in financial expenses of the Group and hence have an adverse effect on the Group's financial results (or, alternatively, a possible decrease in interest rates may cause a decrease in financial expenses of the Company bringing a positive effect on its financial results).

In the Group's assessment the interest rate risk has a limited bearing on the financial standing of the LW BOGDANKA Group given a relatively low degree of financing the Group's assets with third party capital. Potentially, the risk may be materially increased in case of the significant share of the debt financing (including but not limited to long-term bank loans) in the planned investment of Łęczyńska Energetyka under the name "Modernization and extension of the Heat-Generating Plant in Bogdanka into a Heat and Power Station that will cogenerate heat electrical energy".

The Group does not use any hedging instruments against the risk of fluctuations in interest rates.

4.7.1.6 Risk associated with the specific nature of mining sector operations and the possibility of unforeseen events

The operating activities of the Group, and LW BOGDANKA in particular, 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 the LW BOGDANKA Group being held legally liable.

The most important natural hazards occurring in the mine include:

- coal dust explosion hazard - class "b";
- fire hazard – IV self-combustion group (on a five-grade scale),
- methane hazard – methane category I (on a four-grade scale),
- water hazard – 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. Geological and Mining Law, the Environmental Protection Law and the Act on the Protection of Agricultural and Forest Land, impose an obligation on mining companies to reclaim post-industrial land, which means they have to incur related costs, which could have an adverse effect on the financial results achieved by the Group in the future. The Company has a mandatory obligation to create a mining damage fund to finance costs related to this sphere of the Company's activity.

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

Other factors which reduce the effect of the risk associated with the specific nature of the mining industry on LW BOGDANKA'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 seams 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;
- high qualifications of the personnel.

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

Currently LW BOGDANKA implements a large investment programme associated with increasing the extraction capacity by the Stefanów Field extension. The planned investments are to be financed both with own funds (proceedings for the issued C shares, income on current operating activity) and debt financing, currently totalling PLN 250 million. At present, the Group has a significant level of cash (PLN 472 million as of 31 December 2010), but it does not exclude the possibility of increasing the value of interest-bearing debt in the next several months, which will be dependent on the scope and speed of planned investments in tangible assets. LW BOGDANKA sees no threat concerning the possibility of obtaining additional debt financing for the execution of its own investments. The current long-term debt in the amount of PLN 250 million accounts for approx. 12.7% of shareholders' equity (PLN 1,969 million) and approx. 8.84% of the carrying value. Further, the main investment of Łęczyńska Energetyka, i.e. "Modernization and extension of the Heat-Generating Plant in Bogdanka into a Heat and Power Station that will cogenerate heat electrical energy", the way and scope of financing thereof within the own capital held and its creditworthiness shall require sureties and guarantees from LW BOGDANKA. Łęczyńska Energetyka will not be able to finance the said investment on its own due to too low capital potential.

4.7.1.8 Risk associated with changes in exchange rates

Analysis of historical data of the Group shows that about 0.07% of the value of its total revenue on sales comes from export. The territory of Poland remains the main market for the LW Bogdanka Group, and most transactions are settled in the domestic currency. As at the day of submitting the Report, the operating activity of the LW BOGDANKA Group was not exposed to the foreign exchange risk.

That is not the case in the area of investment activities, where in 2011 the LW BOGDANKA Group is planning to begin the purchase procedure for another coal-ploughing complex to mine coal from low coal seams. The previous transaction of this type was carried out in 2010, and it was denominated in Euros. For the purpose of the above mentioned transaction, the Group purchased foreign currency, which was kept in a bank account until the time of invoice payment. Due to changes occurring in the global market, the PLN/EUR exchange ratio was subject to various fluctuations generating currency exchange gains/losses. The purchase which is being currently planned may have a similar construction (be denominated in foreign currency); therefore, there is a possibility of foreign currency risk in connection with the planned transaction.

4.7.1.9 Risk of restrictive EU climate policy also with respect to the CO2 emissions

The EU climate policy resulting from the Framework Convention of the United Nation on Climate Changes (Kyoto Protocol) stipulates limiting the emission of greenhouse gases to the atmosphere. The regulations adopted in Poland are compliant with the EU laws.
The European Commission declares limiting the CO2 emissions by 20% until 2020. Moreover, it suggests introducing a system of auctions for emission permits from 2013.
The system will mean that instead of receiving free emission rights (as in the period 2008-2012), the companies will be forced to purchase emission permits in open tenders. In the Polish energy sector, more than 90% of electricity is generated on the basis of coal (hard coal and lignite). The production of electricity from coal is connected with significant CO2 emissions. Limitation of the CO2 emission and introduction of a system of obligatory auctions for emission permits may cause significant difficulties in the scope of competitiveness of

traditional energy producers and investments in new production capacity. In consequence, the difficulties of the power sector may result in a decrease in the demand for coal in general, or for coal of lower quality. It may have a negative impact on the sales of coal by the Company, and in consequence may have a negative impact on its financial results. This risk is difficult to assess and it is hard to take any activities to mitigate it due to the fact that despite the suggested restrictive EU climate policy the works on the final form of the obligations to decrease to CO_2 emissions for particular sectors of the economy are still pending and no binding decisions have been made. Consequently, the level of actual future limitations applicable to CO_2 emissions is not known yet. At the same time, in the world (the USA, China, Australia) new technologies - i.e. the "clean carbon technologies" have already appeared, which are continuously enhanced technologies and which, when applied, will decrease the problem of CO_2 emissions.

4.7.1.10 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 and prospective power units within the area of its operations. The Company with other entities is also taking action to explore the possibilities to increase the use of hard coal in Poland, which involves the future introduction of a coal gasification installation.

4.7.1.11 Risk of hostile takeover of the Group

Lubelski Węgiel BOGDANKA S.A., as a result of its IPO on the Warsaw Stock Exchange, has been a public company since 25 June 2009. On 9 March 2010, the State Treasury sold, in block trades, 15,882,000 shares it was holding, which accounted for 46.7% of the share capital, and, as a consequence, the Company became a private entity, 90.5% shares of which can be subject of trade on the WSE.

This situation poses a risk of the so-called hostile takeover.

The Company is implementing its investment programme (Stefanów Field), which is to bring about a growth in the extracting capacity of the mine up to 11.5 million tonnes of coal per year (staring from 2014), and consequently, the achievement of better results as well as technical and economic and financial indices.

The prospects of such a growth, together with the lack of full economic effects prior to the programme completion in 2014, pose a risk of change in control over the Company on terms that would be unfavourable for the existing shareholders.

Attempts to take over control of the Company can be expected from an investor in the fuel and power industry, which has or is planning to take over mining plants, or who owns or is planning to build, in the area of the Group's operations, new energy generating capacities based on the coal of parameters produced by the Company.

This risk consequently results in threats as regards implementation of the established operational strategy by the Group.

The Management Board undertakes actions the aim of which is to increase the value of the Company, through improvement of the structure and efficiency of mining and cost optimisation. It is also important to show to investors the real value of shares, both in relation to the currently achieved results as well as to our resource potential and growth perspectives.

4.7.2 Risks directly associated with the Group's operations

4.7.2.1 Risk associated with estimating the size of deposits

Data on quantity and quality of hard coal which is available to LW BOGDANKA or which may be available in future is obtained from geological documentation and based on projects of deposits development. The data is further updated on an annual basis in the resources records which contain changes that may be caused by:

- a more detailed examination of the deposit,
- mining and losses,
- changed boundaries of the deposit, including a change to the depth in which the resources are documented,
- reclassification of the resources.

Therefore there is a risk that the quantity and quality of the estimated resources will be reviewed (in plus or in minus) as a result of gaining better knowledge about the deposit parameters. Any significant negative adjustment of the deposit size may result in shortening of the assumed mining period, and in consequence have an adverse effect on the life of the mine as well as on the future financial results of LW BOGDANKA S.A.
The Company wants to emphasise that specific geological conditions of the deposit exploited by LW BOGDANKA (the fact that the mining seams are relatively regularly laid out, the geological structure of the deposit is regular – without major disruptions and faults) allow the size of a given deposit to be precisely estimated. Furthermore, the size of the deposit which serves as a basis for the Company to plan the development of its mining capacities has been reviewed many times, and the exploitation works carried out so far confirmed the accuracy of deposit size estimates.

4.7.2.2 Risk associated with the launch of extraction of new deposits

A material aspect of the operations conducted by LW BOGDANKA S.A. is the necessity to secure future extraction possibilities by providing access to new coal resources.

If the activities leading to obtaining and extraction of new deposits are restricted or discontinued, or if unforeseen formal, legal or technical difficulties occur during the period of preparing the deposit for the extraction, the mining capacity of LW BOGDANKA may be limited, which in consequence may shorten the life of the mining plant and/or reduce the assumed level of extraction of hard coal thus decreasing future financial results of LW BOGDANKA. Considering how the works related to enlarging the mining area are advanced, the risk described in this section is insignificant in relation to the Company.

In April 2009, the Company obtained a licence for extracting a hard coal deposit in a new enlarged mining area, which will enable the Company to increase the extraction level in pursuance of the investment programme regarding the Stefanów Field. Moreover, in the Company's assessment, the cost of obtaining a new deposit with the possibility of extraction with the use of two mining shafts as part of the Stefanów Field development programme is relatively low, as the investment is based on, among other things, the development of the existing historical infrastructure.

4.7.2.3 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 LW BOGDANKA S.A., and therefore on the financial results achieved by the Company.

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.

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.

4.7.2.4 Risk associated with high costs of technologies applied by the Group

The technology of power coal extraction applied by LW BOGDANKA involves the use of highly specialised machines and equipment produced only by several producers in the world. As a result of the Company's investment plans described in section 8.4 of the Prospectus and referring to the Stefanów Field extension, it will be necessary to make investments in new specialised mining machines. Due to global concentration of producers of the aforementioned machines and equipment, there is a risk of unexpected increase in prices of specialised machines and equipment, which could have impact on the increase of investment expenditures which must be borne in connection with implementation of the Company's development strategy.

4.7.2.5 Risk of IT systems malfunctioning

A partial or complete loss of data due to a malfunction of LW BOGDANKA computer systems could adversely affect the Group's ongoing operations and therefore affect the Group's 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." regulating organisational and technical measures for data protection and maintaining the continuity of 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 October 2010, the Company implemented a server cluster for main ORACLE databases and a centralised data backup. Further activities are being carried out, aiming at the development of a cluster system for other servers; the Company is planning to complete this process in May 2011.

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.

4.7.2.6 Risk associated with retaining and attracting human resources

In the next years, the Group intends to increase significantly the employment level. The Company's demand for human resources results from its development strategy which involves increasing the extraction capacity in connection with the extension of the Stefanów Field, as well as the age structure of the Company's staff and the effective retirement laws under which until 2015 approx. 30% of the Company's employees, including mostly the employees working underground, will acquire pension rights. The employment increase in the following years will take place gradually, in line with the Company's demand for human resources in connection with the extension of the mine and the Coal Mechanic Processing Plant, as well as the increasing production capacity; new employees will be recruited mostly from mining schools graduates.

The mining law requires that the persons employed in the mine operation had certain qualifications awarded to persons which have, inter alia, several years of work experience.

There is a risk that potential difficulties in obtaining appropriate employees may have an adverse effect on the operating activity of LW BOGDANKA, including the extraction volume and production costs, and thus also on the Group's financial results.

The Company runs active human resources policy which aims to limit the human resources related risks. Since 2007, the Company has been gradually hiring young employees who will have gained the necessary mining experience and the required qualifications by 2011 (the planned completion of the Stefanów Field extension). To eliminate the potential generation and competence gap with respect to staff, the Company is cooperating with specialist universities, secondary and vocational schools educating persons with special qualifications for the mining, mechanic and electric sectors.

4.7.2.7 Key customer risk

Vast majority of the power coal produced by the LW BOGDANKA Group 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 Group could have an adverse effect on the financial results achieved by the Group.

As at the day of submitting the Report, the Group has signed contracts for the entire sales of coal for 2012, and entered into agreements with two main recipients (ENEA, Elektrownia Kozienice S.A. and Energia Elektrownie Ostrołęka), thus ensuring a market for coal in the long-term perspective until 2025. Information concerning significant trade agreements signed by the Company in 2010 and after the balance sheet date is provided in section 3.1 of the Report.

There is a risk that as a result of privatisation and consolidation processes in the energy capital market, one of the key recipients will significantly strengthen its position in relation to the Group by taking over higher volumes of the Company sales than they are now. This poses a risk of increasing the dependency of the Group on one key recipient.

There is also a risk that energy investments in new capacities will not be implemented, or that energy investments will be inclined towards substitute sources of energy (atom, natural gas, shale gas, renewable sources of energy) or that investments will be significantly delayed – which may cause a problem for the Group regarding allocation of significant volumes of coal originating from increased extraction. The Company mitigates this risk by looking for alternative recipients: supplies of the Company's coal mixed with low-sulphur imported coal for the needs of the recipients who require low-sulphur coal, and by looking for possibilities of export sales.

There is also a risk that as a result of investment delays in the Group, the level of higher extraction will be achieved later than it is assumed in the investment, mining and coal sales plans. This brings about a problem of performing under sales contracts for the needs of the key recipients, which are concluded well in advance, and a risk of incurring contractual penalties by LW BOGDANKA. The Group mitigates this risk by flexible construction of trade contracts and ongoing co-operation with the key recipients.

4.7.2.8 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.

In the case of coal suppliers from eastern markets, LW BOGDANKA has a significant logistics advantage. In comparison to Polish producers of hard coal, the Company's competitive strengths minimise the risk associated with price competition.

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 Group's customers to invest in fume desulphurisation installations. Because customers for power coal have technologies which are prepared for burning coal with a particular calorific value and because, as at the date of submitting this Report, all the key customers 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 very limited.

4.7.2.9 Risk of delays in planned investments due to the obligation to comply with the Public Procurement Law

The Company is carrying out activities aiming at the increase of production capacities by extension of the Stefanów Field, the processing plant and the track system. Contracts for performance of those tasks were awarded through public procurements.

Pursuant to the contractual provisions, start-up of the lift mechanism of shaft 2.1 and facilities of the run-of-mine haulage from shaft 2.1 to the Mechanical Coal Processing Plant in Bogdanka will take place in June 2011, and by the end of the year, the development of the Mechanical Coal Processing Plant will have been completed.

Any delay in implementation of those investments may result in decreasing the revenue for LW BOGDANKA, and consequently, may have a negative effect on its financial results. The Company exercises due diligence in order to avoid any delay in the investments. The Department of Developmental Investments carries out constant monitoring of work implementation against the adopted schedules.

4.7.2.10 Risk associated with the strong position of the trade unions in the Group

Trade unions hold a significant position in the hard coal mining sector and play an important role in determining staff and payroll policy, frequently forcing renegotiations of wage policy through protest actions. As at the day of submitting this Report, four trade union organisations operate at LW BOGDANKA associating the total of 63% of the Company's employees, and within the LW BOGDANKA Group there operate six trade union organisations associating approx. 64% of the Group's 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 LW BOGDANKA. Furthermore, possible protests and/or strikes organised by the trade unions operating in the Company could affect the operating activities conducted by LW BOGDANKA. This also refers to possible protests related to the risk of hostile takeover of LW BOGDANKA, and thus the whole Group.

In the Company's opinion, cooperation of the LW BOGDANKA Group with the trade unions operating in the companies has so far been successful. The Group's objectives include continuation of the cooperation between its companies' Management Boards and the trade unions in order to maintain good mutual relations and increase the unions' involvement in achieving the objectives and strategy of the companies and the whole Group.

4.7.2.11 Risk of the employees of the Company being additionally employed in external entities cooperating with the Group (LW BOGDANKA)

Such cooperation involves external entities providing outsourcing services to LW BOGDANKA, 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 the entities referred to above 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 provision of work for LW BOGDANKA by the employees of LW BOGDANKA through third-party entities could not be continued, the Company would be forced to hire additional employees or to reduce production, which could consequently have a negative effect on the financial results achieved by the LW BOGDANKA Group.

4.7.2.12 Key supplier risk

The specific nature of the Group's operations (both within the scope of operations of LW BOGDANKA and Łęczyńska Energetyka with regard to the execution of the planned investment) 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 Group's companies require that a performance bond is made.

4.7.2.13 Risk of unfavourable/inappropriate contractual terms being concluded

Due to the high degree of complexity of the agreements signed by the LW BOGDANKA Group (particularly those relating to the purchase of specialist equipment and technology), the companies are exposed to a risk of an agreement being concluded on unfavourable terms.

This risk also occurs where a business partner has a very strong negotiating position (e.g. in the case of a contract for deliveries from the only manufacturer of a particular product).

The 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.

4.7.2.15 Risk associated with related party transactions

Within the LW BOGDANKA Group there are concluded mutual transactions between the Group's companies (related parties) which may be subject to inspection by tax authorities. The man subject of examining the transactions is whether they have been concluded on an arm's length basis or not.

In the Group's opinion, all transactions within the Group which LW BOGDANKA concluded with Łęczyńska Energetyka were and continue to be concluded solely on an arm's length basis. It cannot be ruled out however that the tax authorities will decide to the contrary in assessing the transactions conducted by the Company and its related parties, which could result in a difference in calculating the taxable income and the necessity of paying additional tax along with default interest.

4.7.3 Financial risk of the Group

4.7.3.1 Liquidity risk

In mid-2009, the Lubelski Węgiel BOGDANKA Group acquired PLN 528 million gross from the issue of 11 million of shares on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). The prospectus specified that funds from the increase of the capital would be used for financing the investment plan under implementation (e.g. extension of the Stefanów Field).

Important factors in the assessment of a company's insolvency risk include the level of operating cash flows generated by the company, the amount of cash, and liquidity ratios. In case of the Group, cash as at 31 December 2010 amounted to PLN 472,201,000 current liquidity ratio – 2.07, and quick liquidity ratio – 1.88. In the period between 1 January 2010 and 31 December 2010, flows from operating activities were maintained more or less on the same level (as compared to the corresponding period of the previous year) and amounted to PLN 368,235,000. Therefore, as at the day of submitting the Report, there is no risk of the Group's insolvency. To avoid any potential risks in future and to mitigate the risk related to the future of the Group, long- and short-term analyses and forecasts are prepared, allowing to determine cash needs of the Group. Those activities make it possible to plan revenues and expenses in advance, and to determine optimal, from the point of view of the economic calculation, cash level and method of financing future expenses.

4.7.3.2 Credit risk of the Group

Current (as at 31 December 2010) indebtedness of the Group (long- and short-term taken together) amounts to PLN 250,000,000. Due to the fact that further development of the Mine is planned (start-up of extraction in the Stefanów Field, purchase of new mining machines and equipment, etc.), with limited level of means from operating activities and means from the issue of shares, it may be necessary to employ additional external sources of financing, e.g. a bank facility. Apart from that, currently (as at the day of preparing this information) an effective schedule of repayments concerning the above mentioned credit facility provides for quarterly repayments of the capital in the current year for the total amount of PLN 50,000,000.

The current economic situation of Poland, frequent comments of analysts and economists, or even suggestions of the Members of the Monetary Policy Council, provide increasing more serious reasons to raise the interest rates in Poland (which is expected to take place during the next meetings). An increase of interest rates by the Monetary Policy Council will translate into growth of the WIBOR rate, in relation to which the costs of the Group's debt is established, the consequence of which will be the growth of financial expenses and reduction of the gross and net result.

In the opinion of the Group, the risk related to change of interest rates has a limited effect on the financial situation of the LW BOGDANKA Group due to a relatively low level of involving external capitals for financing its assets.

The Group does not use any interest rate hedging instruments.

4.7.4 Risks associated with environmental protection

4.7.4.1 Risk associated with reclamation and mining damage

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

As the mining area of the Company will be enlarged, the damage resulting from mining, both in buildings and agricultural land, will increase proportionately. Simultaneously with the coal extraction, the land settlement will enlarge within the mining area, which will result in a higher level of ground waters and local land undercuts. The growing damage resulting from mining will translate into higher outlays on the removal of the mining damage (purchase of developed real properties). Therefore, in addition to the existing recovery work, the Company will continue to protect buildings against the results of mining damage and to reimburse the costs incurred by investors on adjusting the new buildings under construction on the mining land to the current conditions. This may adversely affect the financial results of the Company.

4.7.4.2 Risk associated with tightening of standards and regulations of law with respect to environmental protection and the obligation to obtain permits for the economic use of the environment

The operations of the LW BOGDANKA Group have a significant impact on the environment. Given the nature of that impact, the Group's companies must hold specific permits for the economic use of the environment and observe standards, detailed in applicable laws, of using the environment(including BAT requirements), regarding in particular emissions of substances and noise to the air, water and waste management, management of the generated solid waste and the use of natural resources. Accordingly, the environmental protection standards are applicable both to LW BOGDANKA and Łęczyńska Energetyka.

As at the date of submitting the Report, the Group's operations are conducted in compliance with law and BAT requirements. The Company holds all permits required in connection with its operations, including, in particular, integrated permit for the installations covered with IPPS requirements (EkoKLINKIER Construction Ceramics Plant, mining waste dump). Both LW BOGDANKA and Łęczyńska Energetyka were granted the CO2 emission allowance for the settlement period 2008-2012.

However, there is a risk that, given the new Mining Waste Act, the Company will have to introduce changes in the manner it manages its mining waste. The Mining Waste Act introduces new rules governing the management of such waste, and stipulates an obligation to approve a mining waste management programme and to obtain a permit for operating facilities for their utilisation. The Company's operations will have to be adjusted to the new requirements as from 1 May 2012.

Furthermore, it must be stressed that since the environmental law regulations are subject to continuous changes, and the prevailing last years' trends in the EC environmental laws lead to tightening the standards of environmental protection, it cannot be ruled out that in future further legislative changes will introduce even stricter standards of the use of environment, which may also apply to the sector of operations of the Group's companies. The changes may lead to the necessity of adjusting the Company's operations or the operations of Łęczyńska Energetyka to the new requirements (e.g. changes with respect to the use of technologies for improving the emissions to the air or the manner of waste management), as well as further changes as regards the terms and conditions of permits granted to the Company or to Łęczyńska Energetyka, which in consequence may lead to a necessity to incur investment outlays and hence adversely affect the Group's financial results.

4.7.4.3 The Group's risk associated with management of waste generated after extension of the mining area of LW BOGDANKA

In connection with the extension of the mining area and increased extraction of coal, LW BOGDANKA will significantly increase the amount of generated extraction waste (in 2009 at a level of 3.8 t per year; the forecast for the period after 2010 in connection with the launch of the shaft in Stefanów – increase from 3.9 million in 2011 to approx. 4.7 million in 2014). As of 1 January 2010, approx. 40% of extraction waste is recycled, whereas the remaining part is kept or stored at the waste yard on the Company's premises (the waste is recycled by the Company or passed on to the entities authorised to deal with waste management for the purpose of recycling). Since – according to the Company's estimates – the storage capacity of the waste yard is sufficient for the next 3-5 years of storing, the Company plans to extend the existing storage yard by the adjacent areas (increasing the area by approx. 144 ha to approx. 230 ha). The investment requires amendment of the local spatial development plan of the commune (conversion of farmland and forest area into land for waste storage purposes), while the investment process itself will require endorsements (especially with respect to environmental impact), as well as decisions and permits for construction and exploitation of the environment. What is more, as approx. 90% of land is owned by individual farmers, the Company will be forced to purchase those plots. The Company has submitted applications for relevant amendments to the local spatial development plan and the works in this respect are quite advanced. Following the social consultations, the Company obtained the local community's approval for the investment. Moreover, the Company has already carried out talks with the plot owners and obtained preliminary consent for the purchase of plots. Nevertheless, taking into account the factors connected with the investment process referred to above, one cannot exclude the risk that the planned investment would not be implemented. Failure to implement this investment will mean the risk of disrupting the stability of the Company's extraction process and the necessity to search for alternative ways to manage the extraction waste. There is a risk that other solutions (in particular passing the waste to another entities for management, other waste yard location) may turn to be less cost effective which may affect the Group's financial result.

4.7.4.4 Investment risks of the Group associated with protected areas

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

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

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

4.7.5 Risk of the Group associated with proceedings and legal environment

4.7.5.1 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 the Group's companies may be reviewed by fiscal authorities for the period of five years and some transactions carried out in that period, including transactions with related entities, may be questioned for tax purposes by competent tax authorities. As a result, the amounts disclosed in the financial statements may be changed at a later date, when they are determined in a final way by fiscal authorities.

4.7.5.2 Risk of real estate tax on mining excavations of LW BOGDANKA

In line with its strategy, when LW BOGDANKA 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.

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

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

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

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

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

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

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

4.7.5.4 Risk of LW BOGDANKA regarding 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.

4.7.5.5 Risk of violating the stock exchange disclosure requirements

Since LW BOGDANKA S.A. is listed on the Warsaw Stock Exchange, the Group is subject to provisions which impose a number of requirements connected, inter alia, with securing equal access to certain information on the Group's activity to all investors, publication of such information in a manner specified in the law and strictly specified rules of dealing with confidential information, in compliance with the Act on public offering and conditions for introducing financial instruments to organised system of trade and on public companies (Dz. U. of 2005, No. 184, item 1539 as amended). For a failure to perform or undue performance of the requirements set forth above a very high fine may be imposed. The Company makes efforts to mitigate this risk by meeting its obligations in a reliable way, which was preceded by implementation of internal procedures specifying the circulation of stock exchange information at LW BOGDANKA S.A. and by permanent monitoring of the companies' activity from the perspective of disclosure requirements.

4.7.6 Risk relations within the Group - Summary

The Lubelski Węgiel BOGDANKA Group consists of Lubelski Węgiel BOGDANKA S.A. as the Parent Undertaking and Łęczyńska Energetyka Sp. z o. o. as a subsidiary. The Parent Undertaking's revenue accounts for 99.3% of the Group's revenue and the Parent Undertaking's net profit accounts for 98.80% of the Group's net profit (figures for 2010). Therefore, it has been assumed that the significant risks to the Group's activities are in fact significant risks to the activities of the Parent Undertaking. The only risk at the Group level which might significantly affect the activities of the Group and which relates to Łęczyńska Energetyka is the process of completing the planned investment project, i.e. "Modernisation and extension of a heat-generating plant in Bogdanka into a heat and power station with combined heat and electricity production". The value of Stage II (the construction of a heat-generating plant) of the project is estimated at PLN 625.9 million, and the stage is scheduled to take five years to complete, i.e. by 2015. This is subject to a number of technical, technological, process, financial and deadline-compliance risks typical of such investment projects.

5. OWNERSHIP CHANGES IN THE LW BOGDANKA GROUP IN 2010

5.1 Holdings of shares in LW BOGDANKA S.A. as well as shares in related undertakings of the Company by the management and supervision personnel of LW BOGDANKA S.A.

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

.

Table 18 The number of the Company shares and shares in a subsidiary of the Company held by the members of the Management the Supervisory Boards of LW BOGDANKA S.A.

Name and surname	The number of the Company shares as of 21 March 2011	Par value of the shares (PLN)	The number of the Company shares as of 8 November 2010	Par value of the shares (PLN)	The number of shares in Łęczyńska Energetyka Sp. z o.o. as of 21 March 2011
Management Board					
Mirosław Taras	2,737	13,685	2,737	13,685	0
Krystyna Borkowska	1,299	6,495	1,299	6,495	0
Zbigniew Stopa	3,834	19,170	3,834	19,170	0
Waldemar Bernaciak	2,162	10,810	2,162	10,810	0
Lech Tor	1,124	5,620	-	-	0
Supervisory Board					
Eryk Karski	0	0	0	0	0
Stefan Kawalec	0	0	0	0	0
Andrzej Lulek	0	0	0	0	0
Ewa Pawluczuk	0	0	0	0	0
Jadwiga Kalinowska	1,024	5,120	1,024	5,120	0
Adam Partyka	1,024	5,120	1,024	5,120	0
Total	**13,204**	**66,020**	**12,080**	**60,400**	**0**

5.2 Information on agreements known to LW BOGDANKA S.A. and the subsidiary (including those concluded after the balance-sheet date), as a result of which changes may occur in the future in the proportion of shares held by the previous shareholders.

As of the date of submitting this Report, the LW BOGDANKA Group's companies have no information on agreements, as a result of which changes may occur in the future in the proportion of shares held by the existing shareholders.

5.3 Acquisition of own shares

In 2010 the LW BOGDANKA Group's companies did not acquire any of its own shares.

6. INFORMATION ON GROUP'S PERSONNEL

6.1 Employment in the Group

Table 19 Employment in the Group

Item		Employment at the end of the year				Structure	Dynamics 2010/2009
		2007	2008	2009	2010	%	%
Total							
Group total		**3,655**	**3,792**	**4,016**	**4,087**	**100%**	**1.77%**
incl.:	Lubelski Węgiel Bogdanka S.A.	3,545	3,667	**3,885**	3,968	97.09%	2.14%
	Łęczyńska Energetyka sp. z o.o.	110	125	131	119	2.91%	-9.16%
Full time employees							
Group total		**523**	**548**	**589**	**607**	**14.85%**	**3.06%**
incl.:	Lubelski Węgiel Bogdanka S.A.	490	511	549	564	**13.80%**	**2.73%**
	Łęczyńska Energetyka sp. z o.o.	33	37	40	43	**1.05%**	**7.50%**
Workers							
Group total		**3,132**	**3,244**	**3,427**	**3,480**	**85.15%**	**1.55%**
incl.:	Lubelski Węgiel Bogdanka S.A.	3,055	3,156	3,336	3,404	**83.29%**	**2.04%**
	Łęczyńska Energetyka sp. z o.o.	77	88	91	76	**1.86%**	**-16.48%**
Underground employees							
Lubelski Węgiel Bogdanka S.A.		**2,540**	**2,643**	**2,838**	**2,895**	**70.83%**	**2.01%**

2010 brought a 1.77% increase in employment in the Group. Most cases of staff leaving were due to retirement. A rise in employment at the Parent Undertaking was caused by new hirings in connection with the Stefanów Field investment programme.

In 2010 the personnel employed at the Parent Undertaking accounted for 97.09% of total employment in the Group. Workers accounted for 85.15% of all employees.

In comparison with 2009 the number of underground staff went up by 57 workers, i.e. 2.01%. These employees constituted the main group employed in the Group, i.e. 70.83 %.

6.2 Remuneration at the Group

Average remuneration in the Group (net of profit distributions) amounted to PLN 6,277.90 and was lower by 4.86% for the average remuneration paid in 2009.

The remunerations paid in the Group are among the highest in the hard coal mining industry and in the Lublin

Region.

Table 20 Remuneration in the Group

Item		Average remuneration (PLN)			Dynamics %
		2008	2009	2010	2010/2009
Total employees					
TOTAL		**5,767.87**	**6,598.68**	**6,277.90**	**95.14**
incl.:	Lubelski Węgiel Bogdanka S.A.	5,947.35	6,812.68	6,366.77	93.45
	Łęczyńska Energetyka sp. z o.o.	3,084.83	3,369.36	3,403.24	101.01
Full time employees					
TOTAL		**7,302.16**	**8,356.22**	**8,024.59**	**96.03**
incl.:	Lubelski Węgiel Bogdanka S.A.	7,523.70	8,621.42	8,257.03	95.77
	Łęczyńska Energetyka sp. z o.o.	4,063.69	4,649.35	4,704.91	101.20
Workers					
TOTAL		**5,617.79**	**6,421.05**	**5,975.18**	**93.06**
incl.:	Lubelski Węgiel Bogdanka S.A.	5,692.16	6,516.01	6,053.13	92.90
	Łęczyńska Energetyka sp. z o.o.	2,652.61	2,793.14	2,784.15	99.68

The agreement concluded on 9 June 2010 between trade unions and the Company's Management Board on the policy of remuneration payment in the Company the average monthly pay increase rate in 2010 was established at 3.60% in relation to the performance in 2009 (without the incentive award – in compliance with the provisions of the incentive programme of 27 November 2008.)

The level of remuneration paid out at the LW BOGDANKA Group did not adversely affect its profitability or management efficiency, nor limit its investment operations.

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

6.3 Remunerations, awards or benefits, including under incentive or bonus programmes based on the equity of LW BOGDANKA S.A., paid or payable or potentially payable to the members of the Management and Supervisory Board

The total gross remuneration paid to the Members of the Management Board in 2010 amounted to PLN 2,251,784.48. Within their duties at the Company, Members of the Management Board were given remuneration only in respect of employment agreements.

- Mirosław Taras PLN 702,461.21
- Zbigniew Stopa PLN 463,911.35
- Krystyna Borkowska PLN 465,060.77
- Waldemar Bernaciak PLN 462,108.37
- Janusz Chmielewski PLN 158,242.78

The total gross remuneration paid to the Company's proxies in 2010 amounted to PLN 533,162.64. Within the duties at the Company, the proxies were given remuneration only in respect of an employment agreement.

Supervisory Board

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

The remuneration of Supervisory Board members delegated to temporarily perform the duties of a Management Board member shall be defined by the Supervisory Board by way of a resolution and shall not exceed the amount of the remuneration of a Management Board member determined in accordance with the rules of remuneration for Management Board members adopted by the General Shareholders Meeting. If a Supervisory Board member delegated to temporarily perform the duties of a Management Board member receives the aforementioned remuneration, such Supervisory Board member shall not be entitled to remuneration for that period in respect of his/her Supervisory Board membership.

A total gross remuneration paid to the Supervisory Board Members for performing their duties in the Company in 2010 amounted to PLN 299,273.44, including:

- Wiesław Różycki - PLN 18,424.43
- Krzysztof Maślankowski - PLN 18,424.43
- Grażyna Dec - PLN 18,424.43
- Henryk Czapla - PLN 18,424.43
- Bogdan Kowal - PLN 17,272.90
- Eryk Karski - PLN 44,316.13
- Stefan Kawalec - PLN 26,800.00
- Andrzej Lulek - PLN 26,800.00
- Jadwiga Kalinowska - PLN 32,638.71
- Ewa Pawluczuk - PLN 32,638.71
- Adam Partyka - PLN 45,109.27

Costs related to the performance of duties by the Supervisory Board in 2010 amounted to PLN 19,453.20. Members of the Supervisory Board do not receive benefits in-kind in relation to their duties.

Moreover, in 2010 three Members of the Company's Management Board received remuneration in respect of performing duties in the Supervisory Board of Łęczyńska Energetyka Sp. z o.o.

- Zbigniew Stopa - PLN 41,454.96
- Janusz Chmielewski - PLN 39,382.20
- Mirosław Taras - PLN 39,382.20

Other Members of the Management Board and the Supervisory Board do not perform any duties in the subsidiaries of LW BOGDANKA S.A.
In 2010 there were no incentive or bonus programmes for the Company's Management Board based on the equity.

6.4 All agreements concluded by and between LW BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o. and the management personnel which provide for compensation in case of resignation or dismissal from their position for no cause or in case they are dismissed as a result of acquisition of LW BOGDANKA S.A.

Pursuant to the provisions of employment contracts concluded by and between LW BOGDANKA S.A. and the individual Members of the Management Board, in case they are dismissed or their employment contract is terminated before the expiry of their term for reasons other than violation of basic obligations arising from the employment relationship, a Member of the Management Board is entitled to a severance pay in the amount of three months' base remuneration.

6.5 Information on a control system of employee share schemes in the Group

In 2010, no control system of employee share schemes was in place at LW BOGDANKA S.A.

7. ENVIRONMENTAL PROTECTION

The entire infrastructure of LW BOGDANKA S.A. and Łęczyńska Energetyka Sp. z o.o. is surrounded with protected land. In the immediate vicinity the Polesie National Park and Łęczna Lake District Landscape Park are located. In the north-east, the mining area overlaps with small stretches of the protection zone of the aforementioned landscape park which have been included in the Natura 2000 site – "Jeziora Uściwierskie" (Uściwierskie Lakes) (CODE PLH 060009). The region is also part of the "International Biosphere Reserve – Polesie Zachodnie" area, which surrounds the Mining Area from the north and west.
In the north-west, the Polesie Protected Landscape Area is located, and in the south-east, the Chełm Protected Landscape Area, which changes into the "Dolina Świnki" (Świnka River Valley) wildlife corridor, which stretches parallel to the west border of the mining area.
The companies comprising the LW BOGDANKA Group do not present an ecological threat in terms of environmental impact. That is due to the Company's long-term pro-ecological actions, implementation of an Integrated Quality and Environmental Management System, and extension of the relevant certificate in accordance with PN EN ISO 14001 and 9001.

7.1 Activities of LW BOGDANKA S.A. with respect to environmental protection

Natural environment protection measures

LW BOGDANKA has an organised emitter which emits dust and gas into the atmosphere. It is the Ceramic Building Materials Plant where the main source of gas and dust emissions include: brick tunnel kiln, and ground material preparation unit. The EkoKLINKIER Construction Ceramics Plant has an integrated permit no. PZ 17/2006 of 29 December 2006, which specifies, among other things, the conditions and permissible amounts of pollutants which may be emitted from the plant into the air. The permit was amended by virtue of decision PZ 21/2009 of 6 July 2009 and is valid until 1 May 2012. In 2010, the Ceramic Building Materials Plant emitted 11,502 Mg of dust and gas into the atmosphere without violating the permit. For air emissions from the Ceramic Building Materials Plant environmental charges were charged and paid at the end of each half-year.
The Ceramic Building Materials Plant is included in the European Union Emissions Trading Scheme and, pursuant to the National Allocation Plan, the plant received 12,049 Mg of CO_2 per annum in the 2nd trading period of 2008-2012. A report on CO_2 emissions after verification by an authorised company was sent to the National System Administrator – Institute of Environmental Protection. Time limit stipulated by the law — the end of the 1st quarter after the end of the trading year.
The second emitter is the waste rock disposal area, which may be a source of dust on dry and windy days.

Water and sewage management

Water and sewage management in terms of mine water involves:

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

In 2010, the average annual water supply to workings amounted to 5,862,750 m^3/day, average total mineralisation 2,529.38 mg/dm^3, Cl + SO_4 ion content – 923.50 mg/dm^3. The Cl + SO_4 ion content classifies the mine water of Lubelski Węgiel BOGDANKA S.A. into category II of industrial water (in accordance with GIG [Central Mining Institute] classification) – as was the case in previous years.

The quantity of mine water used in 2010 for industrial purposes underground and on the surface amounted to a total of approx. 13,882 m^3/day, out of which approx. 13,003 m^3/day was used underground for the purpose of supplying the fire-fighting system and climatic systems. On the surface, water was used primarily by the

Mechanical Coal Processing Plant in the quantity of 849 m^3/day for process purposes (water supplementation in closed circulatory system) and by Łęczyńska Energetyka – 30 m^3/day.

Tests of physicochemical properties of mine water are conducted on a regular basis, once a year, by Pomiar – GIG Lublin. In 2010, as was the case in previous years, 39 samples were taken for the purpose of physicochemical analyses of mine water which reaches the workings.

In 2010, tests of radioactive substances in mine water were conducted by the Radiometry Laboratory of the Central Mining Institute, and revealed the following concentrations: Radium ^{226} in the range of < 0.003 KBq/m^3, Radium ^{228} < 0.03 – 0.08 KBq/m^3. In the last 10 years, the results of water radioactivity analyses have been stable and show values significantly below the permissible norms.

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

a) drainage of the LW BOGDANKA S.A. mine in Bogdanka in quantities which shall not exceed:
   Qdavg = 20,000 m^3 /d, Qmax = 22,000 m^3/d,
   Qhmax = 917 m^3 /h, until 31 December 2010, and
   Qdavg = 26,700 m^3 /d, Qmax = 32 000 m^3/d,
   Qhmax = 1,400 m^3 /h, from 1 January 2011 until 31 December 2017.

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

In 2010, 15,183 m^3/day of water from mine drainage was discharged into the river. Mine water discharged into the surface water – the Świnka River – exceeds the parameters specified for category II of water quality only in terms of chloride content (on average 811.51 mg/dm^3).
Basic indicators of pollutants in the discharged water do not exceed the values specified in the water permit decision.
Drinking water and water for household purposes is supplied to Lubelski Węgiel BOGDANKA S.A. from the water mains of "Łęczyńska Energetyka" Sp. z o.o., which holds valid water permit decisions for:
- water intake and groundwater extraction in Bogdanka, Nadrybie and Stefanów,
- discharge of treated sewage,
- use of sewage treatment equipment.

Documentation maintained by "Łęczyńska Energetyka" Sp. z o.o. confirms compliance with the conditions specified in the decisions.
Pursuant to legal requirements, twice a year – after the end of each half-year, LW BOGDANKA calculated and paid a charge for Cl + SO_4 load in unused mine water discharged into the receiving water body – the Świnka River.
In 2010, routine maintenance of the perimeter ditch of the dumpsite and the "Żelazny" drainage ditch which discharges mine water into the Świnka River was conducted.

Surface protection

In 2010, the impact of mining on the surface manifested itself mainly as an increase in the surface scope of impact, with the following maximum soil settlement values in the following regions:
- approx. 2.50 m in the area of the former Zakład Rolno-Hodowlany (Agriculture and Stock Farm) in Puchaczów,
- approx. 2.00 m in the area of the villages of Kobyłka and Nadrybie Dwór,
- approx. 2.00 m in the area of the village of Uciekajka and western part of the village of Kaniwola,
- approx. 2.00 m east of the village of Dratów.

In the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I) – after mining the second seam (i.e. seam 385) – maximum soil settlement amounts to approx. 4.50 m in the central part of the settlement basin.
In the area where faces 1/IV/385, 2/IV/385 and 3/IV/385 are mined (near the railway line east of Puchaczów), soil settlement increased to 2.00 m, with the impact range of that mining also growing.

Damage to buildings in 2010 were primarily related to rural buildings, i.e. small-size residential and farm buildings. The reported damage to those buildings did not constitute a threat to their users and were removed immediately; also, protection against further impact was provided. In total, damage was removed and protection was provided in 7 buildings.
In 2010, in the area of the village of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I), particularly significant permeation of farmland and entire farms, including buildings, occurred, which was caused by accumulation of precipitation water in the central part of settlement basins. In connection with the above, in order to repair damage caused by mining which could not be removed, eight farms, including buildings, were bought in 2010 in Bogdanka and Nadrybie Wieś.
As part of mining damage repair, dressing of damaged asphalt roads and dirt roads was carried out (in sections of commune and district roads) within a total distance of a 3.14 km.

Damage to farmland in 2010 manifested itself – as was the case in previous years – as persisting permeation of land, with the areas of permanent permeation becoming significantly larger in the following regions:
- the area of the villages of Bogdanka I and Nadrybie Wieś (extension of Bogdanka I), i.e. after mining second seam 385,
- the area east of the village of Dratów, i.e. in the area where faces 10/I, 9/I and 8/I in seam 382 are mined,
- the area west of the villages of Kaniwola and Nadrybie Ukazowe, i.e. in the area of previous mining of faces 6/II, 7/II and 8/II in seam 382,
- the area of the villages of Uciekajka i Kobyłki, i.e. after mining faces 10/II, 11/II and 12/II in seam 382.
- in the area of the railway line east of Puchaczów, i.e. in the area where faces 1/IV, 2/IV and 3/IV in seam 385 are mined.

The costs of removing damage caused by mining in 2010 amounted to a total of PLN 6,187.5. In 2010, the total expenditure in connection with removing damage caused by mining increased significantly in relation to the expenditure incurred in 2009, which amounted to PLN 2,371,200 (this is largely a consequence of buying the abovementioned eight farms for the total amount of PLN 3,043,300.)
In 2010, supplementary water engineering works connected with controlling hydrographic conditions in the area of the villages of Kobyłki and Kaniwola were continued.

Reclamation

In 2010, Lubelski Węgiel BOGDANKA S.A. conducted land reclamation works in the landfill on an area of 2.50 ha. Also, land remediation was conducted together with site development in the Stefanów Field on an area of approx. 0.8 ha. The Company nurtured the greenery, and took care of the mining waste landfill, and previously remediated post-industrial land in the area of the Bogdanka, Nadrybie and Stefanów Fields, and railway facilities in Zawadów.

In 2011 and in the years to follow, it is forecast that another developed farming plots in the village of Bogdanka I and Nadrybie Wieś will be bought back, due to irreparable to-date and forecast damages caused by mining exploitation processes (i.e. permanent continuous undercuts).In 2011 about 10 developed real properties are planned to be purchased (applications in this regard were submitted in 2010).

In 2011 and over the next years, it is predicted that further developed real properties will be purchased in the area of Bogdanka and Nadrybie Wieś, due to irreversible past and predicted damage caused by mining exploitation (i.e. permanent flooding). Due to mining damage – in 2011 it is planned that several overhead power lines will be replaced with cable power lines, and some power lines will be replaced with isolated networks. This issue is being dealt with by the Development Investment Department.

Difficulties occurred in the outflow of water in the area of the mining water outflow ditch, due to ground settling (about 1.5m - exploitation of panels No. 1/IV/385, 2/IV/385 and 3/IV/385). Due to that, hydrotechnical works of the ditch were performed in 2010, based on a building modernisation design for the RE "Żelazny" ditch. These works made it possible to outflow the mining water by means of gravitation, at the segment of 0 + 0.000 – 2 + 100 to the Świnka river.

Based on the building project, hydrotechnical works were also performed for the RA–46 ditch in the area of Kaniwola and Kobyłki (commune of Ludwin), which made it possible to outflow the water from the floodland in the area of farm buildings in the Kobyłki and Kaniwola. In 2010 further hydrotechnical works will be performed on the RA – 46 ditch (upper segment), which will strongly improve the outflow of water from waterlogged areas. The Company constantly monitors hydrotechnical conditions in the areas with ground settling and, if necessary, commissions the performance of drainage works.

Waste management

In 2010, the total mining waste amounted to 3,288,948 tonnes.
Approximately 73% of the waste was recovered and reused.
Waste recovery for industrial purposes in the EkoKLINKIER Construction Ceramics Plant amounted to a total of 36,347 tonnes of waste.
Waste recovery for non-industrial purposes (i.e. remediation of post-mining areas, using waste to strengthen roads, yards, and for other purposes) amounted to 2,366,927 tonnes.
Mining waste is mostly (98.56% of all managed waste) used for the purpose of rehabilitation of degraded land (different types of post-mining pits). It involves restoration of the original lay of the land by filling pits with mining waste, and then covering them with a layer of soil, and using for agricultural purposes or forestation. That takes place in accordance with the "Program of Mineral Resources Post-Mining Pit Remediation in the Territory of the Lublin Province" developed by the Environmental Protection Department of the Province Governor's Office in Lublin and approved by the Lublin Province Governor.
Owners of remediated land hold appropriate decisions of environmental protection authorities (district governor's office).
The table below shows dynamic quantities of waste obtained, waste recovered, and waste treated by depositing it at a landfill – in accordance with the Act on waste (Dz.U. [Official Journal] No. 62, item 628, 2001, as amended).

Table 21 Waste

Item	**2008**	**2009**	**2010**
Mining waste (Mg)	3,047,323	3,788,150	3,288,948
Deposited waste (Mg)	614,977	2,291,656*	1,427,329**
Reused waste (Mg)	2,432,346	1,496,494	2,366,927

*/including: 1,750,000 Mg deposited
541,655 Mg stored
**/ including: 541,655 mg stored from 2009 and 885,674 mg stored from current production.

In 2010 the waste stored in the amount of 1,427,329 tonnes was disposed of, including 541,655 mg stored in 2009 and 885,674 mg from current production. The Company did not pay for waste storage, which is in line with the new Act on mining waste of 10 July 2008 (Article 26.3).
Lubelski Węgiel BOGDANKA S.A. obtained a decision of the Lublin Province Governor no. SiR VII. 6620/32/2004 of 10 September 2004, as amended, permitting the production, recovery and treatment of waste, including a specification of the manner of waste management. The decision – in accordance with the applicable legislation – is applicable to all waste generated by the mine.
In 2009, pursuant to I.10.4. of the integrated permit, tests of the physicochemical composition of waste rock were carried out, and they will be carried out on a regular basis, annually, in accordance with the aforementioned permit.
To date, analyses of Carboniferous waste rock carried out by "Pomiar-GIG" have demonstrated stability of the physicochemical properties of that waste and showed their suitability for, among other things, engineering works connected with levelling of terrain degraded by mining activity, works connected with separators at landfills, non-soil remediation, and road rehabilitation.
LW BOGDANKA also conducts post-industrial waste management (scrap, waste wood, used oil, etc.) and contract treatment of waste (to specialised companies) which cannot be reused (used light sources, conveyor belt off-cuts, adhesive and paint containers, etc.).

Environmental protection sanctions and charges to which the Company is exposed

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

Table 22 Cost related to environmental protection [in PLN '000]

No.	Type of cost		2008	2009	2010
1.	Protection costs (remediation, monitoring)		326.11	337.66	808.93
2.	Post-mining waste management and post-industrial waste treatment		30,159.02	19,231.38	33,005.58
3.	Cost of certified reports, opinions, documentation, designs, etc.		77	67.75	52.20
4.	Environmental charges, including:		2,385.95	310.37	382.06
	- emissions of gas and dust from means of transport, Ceramic Building Materials Plant and climatic equipment		74.32	113.13	162.78
	- waste [1)]		2,136.94	2.08	-
	- discharge of sewage		174.7	114.36	219.28
5.	**Total costs**		**32,948.08**	**19,947.15**	**34,248.77**

[1)] until 1 May 2012 storage of post-mining waste is not subject to charge (the Mining Waste Act)

Lubelski Węgiel BOGDANKA SA meets ecology norms and no penalties for violating environmental conditions specified in the applicable legal regulations were imposed on it in 2010.
Charges for operations conducted under the Geological and Mining Law include a mining operations charge and an exploitation charge.
The exploitation charge was paid quarterly to the accounts of communes where exploitation was conducted (60%) and towards the National Environmental Protection Fund (40%).

Table 23 Exploitation charge and mining use charge [in PLN '000]

No.	Type of charge	2008	2009	2010
1	Exploitation	9,067.15	9,239.49	10,075.26
2	Mining operations	-	3,382.18[1)]	-

1) one-time charge under the mining operations agreement of 6 April 2009 in order to mine hard coal from the Bogdanka deposit in connection with obtaining Licence No. 5/2009

7.2 Activities of Łęczyńska Energetyka Sp. z o.o. with respect to environmental protection

a) Atmospheric air protection

In 2010, the Company operated the following boiler houses:
- in Bogdanka (thermal power: 57 MW, combined combustion of coal with biomass),
- in Zawadów (thermal power: 0.435 MW, coal and waste wood),
- Pasternik boiler house in Łęczna (thermal power: 2.06 MW, coal, a reserve boiler house),
- in Ostrów Lubelski (thermal power: 3.24 MW, coal),
- in Milejów (thermal power: 24.12 MW, combined combustion of coal and biomass; April 2010 was the last month of its operation by the Company).

The Company has been issued the following decisions related to air protection:
- decision No. PZ 13/2007 issued by the Lubelskie Province Governor, Reference: ŚR.V.6618/8-10/2007, dated 22 October 2007. - an integrated permit for the system "Heat-generating plant/heat and power station with combined heat and electricity production in Bogdanka", replaced with Decision No. PZ 25/2010, Reference: RŚ.V.IŁ.7624/48/08, dated 28 September 2010 issued by the Lubelskie Province Marshall's Office in Lublin – an integrated permit for (a) operating a heat-

generating plant system designed for combined combustion of coal and wood chips and (b) for operating a heat and power station with combined heat and electricity production, designed for combined combustion of waste, located in Bogdanka, in the commune of Puchaczów.

- decision ref. no. RŚ.V.PS.7691/15/09 of 17 April 2009 issued by the Marshall Office in Lublin that allows the Company to take part in the European Community's emission trading scheme in the accounting period for years 2008-2012.

b) Water and liquid waste management

Currently the Company holds the water permits:

- decision by the Poviat Starosty [county authorities] in Łęczna No. BAO OSR6223/10/4/2002/2003 to collect water in Bogdanka and Nadrybie and to dispose liquid waste from the waste treatment plant in Bogdanka and Nadrybie, valid until 31 December 2012, amended by decision No. BAO 6223./ 6/2009-9 of 10 May 2009; (the change concerns liquid waste disposal from the waste treatment plant in Nadrybie) and decision No. PZ 13/2007 issued by the Lubelskie Province Governor, Reference: ŚR.V.6618/8-10/2007, dated 22 October 2007. - an integrated permit for the system "Heat-generating plant/heat and power station with combined heat and electricity production in Bogdanka", replaced with Decision No. PZ 25/2010, Reference: RŚ.V.IŁ.7624/48/08, dated 28 September 2010 issued by the Lubelskie Province Marshall's Office in Lublin – an integrated permit for (a) operating a heat-generating plant system designed for combined combustion of coal and wood chips and (b) for operating a heat and power station with combined heat and electricity production, designed for combined combustion of waste, located in Bogdanka, in the commune of Puchaczów.
- decision by the Poviat Starosty [county authorities] in Łęczna Nr BAO 6223/7/3/2005 to collect water from the water intake Stefanów, valid until 30 September 2015.

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

c) Waste management

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

- decision issued by the Poviat Starosty [county authorities] in Łęczna, ref. no. BAO 6140/29/08-2 valid until 30.06.2018, which is related to management of hazardous waste arising as a result of the Company's activities in places: Nadrybie, Stefanów, Łęczna, and Zawadów, and decision No. PZ 13/2007 issued by the Lubelskie Province Governor, Reference: ŚR.V.6618/8-10/2007, dated 22 October 2007. - an integrated permit for the system "Heat-generating plant/heat and power station with combined heat and electricity production in Bogdanka", replaced with Decision No. PZ 25/2010, Reference: RŚ.V.IŁ.7624/48/08, dated 28 September 2010 issued by the Lubelskie Province Marshall's Office in Lublin – an integrated permit for (a) operating a heat-generating plant system designed for combined combustion of coal and wood chips and (b) for operating a heat and power station with combined heat and electricity production, designed for combined combustion of waste, located in Bogdanka, in the commune of Puchaczów.

The waste generated is as follows:

- slags, furnace ashes, and dusts from the boiler house,
- ash and slag mixtures from liquid waste discharge of combustion waste,
- stabilised municipal waste sludge,
- screenings,
- used oil,
- waste printer toner,
- fluorescent and mercury lamps, screens,
- chemical reagent packaging,
- non-segregable municipal waste,

- plastic packaging,
- concrete and brick scrap,
- glass,
- used cleaning materials and sorbent,
- steel and cast iron scrap,
- non-ferrous metals scrap,
- insulation materials other than mentioned above (mineral wool, glass wool, tar board).

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

d) Financial charges for the economic use of the environment

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

Table 24 Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years

Item [PLN]	*2008*	*2009*	*2010*
Emissions of boiler house pollutions:			
–in Bogdanka	300,709.00	337,767.46	389,045.09
–in Łęczna	-	-	-
–in Zawadów	1,530.00	1,522.94	1,736.80
–in Ostrów Lubelski	9,604.00	10,590.94	12,995.36
– in Milejów	15,064.00	73,169.89	34,879.09
For underground water uptake and liquid waste disposal in Bogdanka, Nadrybie and Stefanów	20,451.00	23,432.00	27,509.00
TOTAL	**347,358.00**	**446,483.23**	**466,165.34**

In 2008 ÷ 2010, the Company was not charged with any penalties for having exceeded the standards that have been imposed upon it.

As a result of the verification of Annual Report for 2010, its total volume of CO2 emissions was 49,332 Mg. The Company still has 950 Mg CO2 left from the limit that it has been granted.

8. PROCEEDINGS PENDING BEFORE COURTS, ARBITRATION BODIES OR PUBLIC ADMINISTRATION BODIES

As of 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.

More information on proceedings involving LW BOGDANKA S.A. is provided in the Directors' Report on Operations of LW BOGDANKA S.A. for the period from 1 January 2010 and 31 December 2010.

9. OTHER SIGNIFICANT EVENTS AFFECTING LW BOGDANKA GROUP'S OPERATIONS, THAT OCCURRED IN THE FINANCING YEAR AND IN THE FOLLOWING PERIOD BY THE DATE OF THE APPROVAL OF THE FINANCIAL STATEMENTS

9.1 Tender offer inviting shareholders in BOGDANKA S.A. to sell shares

On 5 October 2010, New World Resource N.V. (NWR), a company with its registered office in Amsterdam, the Netherlands, announced a tender offer for shares in LW BOGDANKA S.A. in connection with NWR's plans to acquire shares in the Company, representing 100% of the voting rights in the Company, under Article 74.1 of the Polish Act of 29 July 2005 on Public Offerings and the Conditions for Introducing Financial Instruments to Organised Trading and on Public Companies and in accordance with the Minister of Finance Regulation of 19 October 2005 laying down provisions for the form of tender offers for the sale or exchange of shares in public companies, detailed rules for announcing such offers, and the conditions for acquiring shares as a result of such offers. As announced, the price of the shares covered by the tender offer was 100.75 (one hundred Polish zlotys 75 grosz) per share.

The original deadline (i.e. 25 October 2010) for registration by shareholders to sell their shares was postponed on 22 October 2010 to 29 October 2010.

On 21 October 2010, the Company's Management Board issued Current Report 41/2010 to communicate, as required under Article 80.1 of the Polish Act on Public Offerings, its position regarding the tender offer. The Management Board of LW BOGDANKA S.A. said in the report that NWR's plans had not been consulted on or discussed with the Company's Management Board before the date of announcing the tender offer. The Management Board firmly opposed to the takeover attempt and pointed out the risk of a significant adverse impact that the acquisition might have on the Company as well as the lack of any financial, technological and organisational benefits from the acquisition. In addition, the Management Board emphasised that the price proposed by the Offeror was grossly lower than the fair value. The Management Board concluded its statement with the recommendation that the Company's shareholders should not respond to the tender offer and should continue to be shareholders in the Company.

The above current report was accompanied by a statement containing the opinion of the Company's trade unions and an opinion – prepared by Rothschild at the request of the Company's Management Board – regarding the price for the Company's shares as offered in the tender offer.

In their opinion, the trade unions expressed their concern that if the Company was taken over by NWR, the Company would lose its status as an independent business entity. In the opinion of Rothschild, the price offered in the tender offer was not a fair price from the financial point of view.

On 2 December 2010, New World Resources announced that its tender offer for shares in LW BOGDANKA S.A. had been unsuccessful. Bank Handlowy Brokerage House, which was responsible for registration of shareholders interested in selling their shares in LW BOGDANKA S.A., announced that during the period for registration, the percentage of shares registered for sale under the tender offer had not exceeded 75. The deadline for registration expired on 29 November 2010. Therefore, the condition specified in paragraph 6 of the tender offer was not satisfied. In consequence, the transaction to acquire shares as a result of the tender offer, as scheduled for 2 December 2010, was not effected.

9.2 LW BOGDANKA qualified for inclusion in Respect Index

In January 2011, LW BOGDANKA S.A. was qualified for inclusion in the Respect Index, Central and Eastern Europe's first index of socially responsible companies.

The qualification was preceded by an analysis aimed at selecting companies which are managed in a responsible and sustainable manner and which are attractive to investors. The analysis included examining the following aspects: the level of investor relations, corporate governance and disclosure governance, the quality of reporting and communication with the market, organisational strategy and management, environmental policy, and relations with employees.

9.3 Marketing activities conducted by the Company in 2010

The execution of marketing activities at LW BOGDANKA S.A. in 2010 was based on the following documents:

- "Programme of Marketing Communication of Lubelski Węgiel BOGDANKA S.A. 2008-2010" – (resolution of the Supervisory Board No 220/VI/2008 of 3 October 2008).
- "Plan of Sponsorship Activities of the LW BOGDANKA Group in 2010" (resolution of the Supervisory Board No 45/VII/2010 of 5 March 2010).
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" (Resolution of the Supervisory Board No. 75/VII/2010 of 28 September 2011).
- "Sponsorship strategy for Lubelski Węgiel BOGDANKA S.A. for 2010 ÷ 2014" replaced, as of the day of its adoption, the previous document entitled "Plan for the sponsorship activity of the LW BOGDANKA Group in 2010", at the same time extending the definition of the role of sponsorship conducted by LW BOGDANKA S.A. in the environment by corporate social responsibility.

The above documents formed the basis for allocating the following dedicated promotional budgets (planned advertising fund):

1. **Advertising sponsorship, sports** – understood as all activities conducted by sports clubs or sports event organisers that involve the provision of sports advertising in exchange for the sponsorship of sports clubs or sports event organisers in various disciplines, significant from the viewpoint of the strategy adopted and the advertising reach.
2. **Advertising sponsorship, other** – understood as all activities related to the provision of advertising by the entities sponsored, in exchange for the sponsorship of important social, cultural, scientific, technical and other events of significance for the social image of the brand.
3. **Promotion – Promotional mix for the Bogdanka corporate brand** – understood as public relations and publicity activities correlated with a media campaign aimed at promoting the Company's corporate image. It involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion]. These tasks are executed in-house by the Company's promotion and advertising unit, as well as outsourced to advertising agencies in case of official media campaigns.
4. **Promotion – Promotional mix for the EkoKLINKIER associated brand** – understood as public relations and publicity activities correlated with a product or image campaign of EkoKLINKIER bricks in the media, in order to boost the sales results of the brand. It also involves the direct production, creation and publication/broadcast of public advertising in advertising media and all other marketing activities related to promotion in its traditional sense [sales promotion].

The rationale behind the marketing activities undertaken:

1) Advertising sponsorship, sports and other

a) Achieving marketing objectives:

- o Continued creation of company image as leader of the mining industry in the Polish and European market;

- o Emphasising the pro-environmental image of the Company by promoting the accompanying brand in the market of construction materials, emphasising the ecological aspect of the activity conducted in all opinion-forming environments. Strengthening and authenticating the eco-friendly nature of the Company's brands;
- o Manifesting the success of the enterprise, confirming its credibility in the eyes of current and future contractors and investors;
- o Achieving the influence of the dynamic and modern image of sport on the image of the Company. Obtaining a low cost of reaching target groups by the mass character of sponsored sport disciplines;
- o Promotion of the image of the Company and its shareholders by sponsorship. Promotion of the Company products within the message directed to the target group, which is to be influenced by sponsoring;

b) Achieving business objectives:

- Creating the image of the corporation brand of Bogdanka as a modern and profitable mining and power enterprise, attractive for capital market investors in view of the implemented development and expansion program. An increase in the value of the Company brands through a range of advertising services provided by sponsored entities. Obtaining a high media coverage, the advertising equivalent of which exceeds over twice the means involved in sponsorship;
- Ensuring dynamics of the Company image in the capital market. Creating the image of the Company on the national and international arena in the context of its own plans of expansion and development, and consequently the increase of the value of the Company on the capital market;
- Development of appropriate for the Company public relations in Poland and in the region. Strengthening the importance of the Company for the Lublin region and for Poland in the community and opinion-forming awareness;
- Winning favour of persons and institutions directly influencing operations of enterprises, including support of persons related to eco-friendly environments. Limiting possibilities of conflicts related to investment plans in the context of pro-ecological attitudes in the areas situated next to environmentally protected areas;

c) Achieving social aims:

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

2) promotion of the Bogdanka corporate brand and the EkoKLINKIER associated brand

  - Creating Bogdanka's Corporate Identity as a modern and highly profitable mining and power company, attractive to capital market investors due to its programme of development and expansion, as well as changes to the Company's capital structure;
  - Emphasising the social dimension of the corporate and associated brand by sports, social and cultural sponsorship, which stimulates the activity of local communities in the Lublin region;
  - Highlighting the pro-environmental image of the Company by promoting the "EkoKLINKIER" associated brand on the construction materials market, consistently stressing the ecological aspect of the company's operations in all opinion-making circles.

Execution of the 2010 advertising budget

Promotional activities for the Bogdanka corporate brand focused chiefly on the brand's image and were conducted, first and foremost, in the Lublin region, as well as at nationwide events addressed to the mining and power engineering sectors. In both cases the Company's advertising was aimed at fostering a positive corporate image of the Company as a large, innovative and expansive business (building the success dimension of the brand), as well as a reliable employer, which, while achieving market success, remains sensitive to the problems of the people, region and the environment in which it operates [building the social dimension of the brand]. The fundamental PR operations conducted in 2010 concerned mainly the press media market. The objective of PR activities was to develop desirable positive attitudes towards the Company among decision- and opinion-making bodies in connection with the Company's presence on the Warsaw Stock Exchange and to build a positive image in the eyes of the existing and future shareholders.

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

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

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

In conclusion, the sponsorship of sports clubs, in particular Górnik Łęczna S.A., Lubelski Węgiel KMŻ and Bogdanka Racing Team, as well as the purchase of advertising in nationwide media, promoted the BOGDANKA brand all over Poland. Advertising activities at various conferences, conventions and trade meetings fostered a positive image of LW BOGDANKA S.A. brands among decision-makers, scientists and entrepreneurs representing the Lublin region, as well as the whole country. Advertising at cultural and social events proved to be an excellent means of building a positive image of the Company among private customers, greatly enhancing the social dimension of the brand in the region. The promotion of the corporate and associated brands was strengthened by the success of sports clubs sponsored through advertising, as well as by advertisements shown at sports events or tournaments involving other clubs, with whom advertising co-operation had been established.

The execution of the advertising budgets of the corporate and the associated brand stood at 70.70% and 44.71%, respectively. The sports sponsorship budget was in 99.16% executed, whereas the execution of the budget allocated to other sponsorship stood at only 26.33%. The total savings, amounting to almost PLN 1,298,000 were attributable to external factors and a cost-reduction program.

Table 25 Advertising budget execution in 2010 [in PLN]

Item	Advertising budget item	Execution in 2010
1	Promotion of the BOGDANKA corporate brand	1,060,480
2	Promotion of the EkoKLINKIER associated brand	447,097
3	Advertising sponsorship, sports	9,965,489
4	Advertising sponsorship, other	79,000
TOTAL		**11,552,066**

9.4 Donations for causes related to education, culture, fitness and sports, health care and social services, religious worship

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

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

In 2010 the Company's Management Board allocated to donations in the form of cash and non-cash donations of the total amount of PLN 451,660.24 (four hundred fifty-one thousand six hundred and sixty zlotys 24/100).

In compliance with the provisions of law regulating public duties, the Management Board allocated funds for the following purposes:

- health care and promotion	- PLN 34,547.50
- culture, art, protection of culture and tradition	- PLN 188,056.08
- promotion of sports	- PLN 45,500.00
- public order and safety	- PLN 121,073.49
- education and science	- PLN 62,483.17

Pursuant to Article 32.2.3 of the Company's Articles of Association, the Supervisory Board's approval is required for contracts of donation whose value exceeds the PLN equivalent of EUR 5,000.

In 2010 one contract of donation fulfilling the above condition and thus requiring the approval of the Company's Supervisory Board was concluded.

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

10. INFORMATION ON THE AUDITOR RESPONSIBLE FOR AUDITING THE REPORT

The Company's Supervisory Board adopted a resolution, at its meeting on 28 September 2010, to select PricewaterhouseCoopers Sp. z o.o., a limited liability company with its registered office in Warsaw, as the auditor responsible for auditing the Company's financial statements for 2010 and the consolidated financial statements of the LW BOGDANKA Group for 2010, prepared in accordance with International Accounting Standards (IAS).

The agreement with the auditor is for a term within which the auditor is able to carry out the audit. The total value of the services to be provided under the agreement with PricewaterhouseCoopers Sp. z o.o. was set in the agreement at PLN 95,000 net.

PricewaterhouseCoopers Sp. z o.o. was entered under number 144 on the list of entities licensed to audit financial statements. The list is maintained by the National Chamber of Statutory Auditors.

The Company hired PricewaterhouseCoopers Sp. z o.o. to audit the consolidated financial statements of the LW BOGDANKA Group for the three financial years covering the total period from 1 January 2006 to 31 December 2008 and to examine forecasts for the financial results of the LW BOGDANKA Group for the period from 1 January to 31 December 2009 for the purpose of preparing a prospectus. In addition, PricewaterhouseCoopers Sp. z o.o. audited the Company's financial statements for 2009, the consolidated financial statements of the LW BOGDANKA Group for 2008 and 2009, and conducted a review of the financial statements for the first half of 2009 and the first half of 2010. The fee for auditing the financial statements amounted to PLN 120,000 net in 2008 and PLN 135,000 net for 2009.

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

The fees for PwC for the review and audit of the financial statements as well as the fees for other services performed by PwC for the current and previous financial year shown in the table below (PLN '000):

Table 26 Fee for PwC for the review and audit of the financial statements and the fees for other services performed by PwC (PLN '000 net)

PricewaterhouseCoopers Sp. z o.o	2009	2010
– auditing annual financial statements	70	95
– other certifying services, including a review of financial statements	65	35
– tax advisory services	-	-
– other services*	20.5	120.5
Total	**155.5**	**250.5**

*including for services related to the Company's project: "Assessment of LW BOGDANKA S.A.'s exposure to key risks" in 2010

11. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

11.1 Corporate governance rules applicable at LW BOGDANKA S.A.

In 2010 LW BOGDANKA S.A. complied with the rules of the "Code of Best Practice for WSE Listed Companies" (hereinafter the "Code of Best Practice for WSE Listed Companies") binding at the Warsaw Stock Exchange. Corporate governance rules in the form of the "Code of Best Practice for WSE Listed Companies" were attached as Appendix to the resolution of the Supervisory Board of the Warsaw Stock Exchange No. 12/1170/2007 of 4 July 2007. Additionally, the Supervisory Board of the Warsaw Stock Exchange adopted on 19 May 2010 Resolution No. 17/1249/2010 on adopting changes to "Code of Best Practice for WSE-listed Companies". Those changes have been effective as of 1 July 2010.

"Code of Best Practice for WSE Listed Companies" is also available at the website devoted to issues of corporate governance at the Warsaw Stock Exchange - www.corp-gov.gpw.pl.

On 23 June 2009 the Company published Current Report No. 7/2009 on non-application of selected rules of the Code of Best Practice for WSE Listed Companies by Lubelski Węgiel BOGDANKA S.A.
According to that report the following rules of the Code of Best Practice for WSE Listed Companies were not applied permanently at the Company until 10 June 2010:

1. Rule 6 of part III:

"At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or its subsidiary or associate cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting."

Explanation:

None of the Company's Supervisory Board members fulfilled the independence criteria specified in rule 6 of chapter III of the Code of Best Practice.
The Supervisory Board consists currently of six members. Due to the fact that the Company was formed pursuant to the provisions of the Act on Commercialisation and Privatisation, two members of the Supervisory Board are elected by the Company's employees. Other members of the Supervisory Board are appointed by the General Shareholders Meeting where until 9 March 2010 the State Treasury was entitled to the majority of votes.

At the Extraordinary General Shareholders Meeting of LW BOGDANKA S.A. on 11 August 2009 Mrs Krystyna Borkowska, Vice-President of the Management Board, presented recommendation of the Company's Management Board regarding undertaking actions by the Company's shareholders aiming at appointing two independent members of the Supervisory Board.

2. Rule 7 of part III:

"The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board."

Explanation:

The audit committee operates within the Company's Supervisory Board. However, that committee does not include any independent member. As it has been indicated in the explanation to the non-application of rule 6 of part III, none of the members of the Company's Supervisory Board fulfils the independence criteria.
Pursuant to the Rules of the Company's Supervisory Board, as long as the State Treasury holds over 50% of the Company shares, in reference to a member of the Supervisory Board delegated to perform the supervisory duties in the audit committee as an independent member, the criterion specified in Article 34.5.4) of the Company's Articles of Association does not apply, i.e. that an independent member may not be the member of the Supervisory Board or of the Management Board or an employee of an entity holding 5% or more of votes at the Company's General Shareholders Meeting or at the Shareholders Meeting or General Shareholders Meeting of the associated entity.
In the opinion of the Company's Management Board, the non-application of the above mentioned rule did not bring about negative results, as the State Treasury is not an active participant of the Company shares' market.

On 15 June, the Company, fulfilling the obligation imposed by Article 29.3 of the WSE Rules hereby announces that due to cessation of reasons for not complying with rules No. 6 and 7 of part III of the Code of Best Practice for WSE Listed Companies as described in Current Report No. 7/2009 of 23 June 2009, the Company will comply with all the rules of the corporate governance stipulated in the Code of Best Practice.
Apart from the infringements of good practice, indicated above and explained, in 2010 the Company has complied with all the corporate governance rules specified in the Code of Best Practice for WSE Listed Companies and the ones subject to reporting.

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

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

As part of the internal audit and risk management system, the process of drawing up the Company's financial statements is governed by a number of internal procedures aimed at ensuring effective supervision, as well as identification and elimination of potential risks. The solutions adopted are based on the Company's Organisational Rules, document workflow guidelines, accounting policy and the scope of responsibility and authorisation of finance and accounting personnel.

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

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

- Rights and obligations – distribution of tasks among employees enables early detection of errors of abuses;

- Reliability and completeness – all operations and transactions are properly carried out and recorded from the beginning to the end;
- Promptness – operations are performed and recorded in registers or software applications in due time, as provided by the regulations;
- Valuation and allocation – assets and liabilities are properly valued, and profits and costs are disclosed in their proper amounts;
- Presentation and recognition – assets, liabilities, profits and costs and transactions are properly classified, described and recognised in appropriate documents;
- Monitoring and reporting – reports containing information and data concerning carried out operations are promptly submitted to the Management Board of the Company;
- Confidentiality – information and data are available only to the persons for whom they are intended by virtue of functions and duties of such persons;
- Availability – systems and software applications are available in time required for carrying out and recording operation and transaction;
- Compliancy – the process and its supporting systems comply with the requirements resulting from legal regulations, standards and norms.

The financial statements' reliability is ensured by data extracted from the accounting ledgers which contain entries based on correct source documentation.

Comprehensive reporting covers all applicable reporting formats. The manner of data presentation is to guarantee clarity of the financial statements (transparency and lucidity of the data), the relevance of information covered by the financial statements and data comparability.

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

Lubelski Węgiel BOGDANKA S.A. maintains accounting ledgers and draws up financial statements in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The same principles apply in the companies forming the Lubelski Węgiel BOGDANKA Group, for which LW is the parent entity.

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

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

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

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

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

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

Table 27 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 8 November 2010 and 21 March 2011

Shareholder	21 March 2011		8 November 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 ***	3,275,953	9.63	3,275,953	9.63
AMPLICO Otwarty Fundusz Emerytalny****	1,734,194	5.10	1,734,194	5.10
Other	20,668,422	60.77	20,668,422	60.77
Total	**34,013,590**	**100.00**	**34,013,590**	**100.00**

* According to the Notification received on 25 March 2010, described in Current Report No. 11/2010.
**According to the Notification received on 18 March 2010, described in Current Report No. 10/2010.
***According to the Notification received on 11 August 2010, described in Current Report No. 35/2010.
****According to the Notification received on 12 May 2010, described in Current Report No. 17/2010.

On 9 March 2010 the State Treasury disposed of 15,882,000 shares of the Company. As a result of the concluded transaction, the State Treasury held 13.84 % of the share capital of the LW BOGDANKA S.A. as at the date of submitting the Report. Therefore, it ceased to hold a majority in the Company's share capital.

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

LW BOGDANKA S.A. has not issued any securities which would entitle shareholders to special control rights.

11.5 Restrictions on exercising the voting right

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

11.6 Restrictions on transferring ownership of the Company's securities

The Articles of Association of LW BOGDANKA S.A. do not provide for any restrictions on transferring ownership of the Company's securities.

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

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

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

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

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

11.8 Governing bodies

11.8.1 Management Boards

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

Appointment of Management Board members

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

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

As long as over a half of the shares in the Company were held by the State Treasury, the members of the Management Board (with the exception of the Management Board member elected by the employees) were appointed by the Supervisory Board following a verification procedure, pursuant to the Regulation of the Council of Ministers on the verification procedure for positions of management board members in certain companies, dated 18 March 2003 (Dz. U. No. 55, item 476, as amended).

The Supervisory Board conducts qualification procedure in the event that circumstance justifying the appointment of a Management Board member occurs.

The conclusion of the election and recognition of its validity shall take place prior to the date of the General Shareholders Meeting accepting the statements, balance sheet and the profit and loss account for the final year of the Management's Board term of office.

Employees shall elect members of the Management Board directly in a general election, in secret ballot.

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

Dismissal of Management Board members

Each Management Board member may be dismissed or suspended from office by the Supervisory Board. A Management Board member appointed by the employees may be dismissed from office upon fulfilment of the requirements specified in the Company's Articles of Association. If a Management Board member nominated by employees is dismissed from office, the vacancy shall be filled without undue delay by way of appointing a new member. A Management Board member nominated by employees who has been dismissed from office before the expiry of his/her term of office may not seek re-election.

11.8.1.2 Compositions of the Management Boards

LW BOGDANKA S.A.

As at 31 December 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, Chief Accountant
3.	Zbigniew Stopa	Vice-President for Technical Affairs
4.	Waldemar Bernaciak	Vice-President for Trade and Logistics
5.	Janusz Chmielewski	Member of the Management Board elected by the employees

Management Board - 7th term of office

On 5 March 2010 the Supervisory Board appointed the following persons for the 7th term of office (2010-2012) of the Company's Management Board:

Mirosław Taras	President of the Management Board
Krystyna Borkowska	Vice-President for Economic and Financial Affairs, Chief Accountant
Zbigniew Stopa	Vice-President for Technical Affairs
Waldemar Bernaciak	Vice-President for Trade and Logistics

The Management Board of the above composition was in office also on 31 December 2010.

The mandates of the members of the Management Board expire on the date of the Annual Shareholders Meeting which approves the financial statements of the Company 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 6th term of office of the Management Board.

The first round of election of the Management Board member elected by the Company's employees for the period of the 7th term of the Company's Management Board took place on 10 March 2010.

Pursuant to the Rules of appointment and dismissal of Management Board members of Lubelski Węgiel BOGDANKA S.A. by the Company's employees, the election of the Management Board member referred to above is only valid in the event that votes were cast by no less than 50% of employees with the right to vote. The elected candidate is required to receive an absolute majority of votes. No candidate received an absolute majority of votes in the first round of the election. Given the above, the second round of elections was scheduled for 23 March 2010.

On 3 March 2011 the Company's Supervisory Board appointed Mr Lech Tor for the seventh term of office of the Company's Management Board. From 3 March 2011, Mr Lech Tor performs the function of the Management Board member elected by the employees.

As at the day of submitting this Report, i.e. 21 March 2011, the composition of the Management Board of Lubelski Węgiel BOGDANKA S.A. was as follows:

1.	Mirosław Taras	President of the Management Board
2.	Krystyna Borkowska	Vice-President for Economic and Financial Affairs, Chief Accountant
3.	Zbigniew Stopa	Vice-President for Technical Affairs
4.	Waldemar Bernaciak	Vice-President for Trade and Logistics

5. Lech Tor — Member of the Management Board elected by the employees

11.8.1.3 Description of operations of the Parent Undertaking and authorisations

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

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

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

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

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

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

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

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

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

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

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

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

In accordance with the Company's Organisational Rules, the **President of the Management Board**:

1. Is in charge of general management and co-ordination of the Company's business and exercises supervisory powers over entities related by equity with the Company through representatives appointed to Supervisory Boards;
2. Represents the Company in relations with third parties;
3. Presides over the Company's Management Board, runs its work and supervises the execution of Management Board resolutions.
4. Directly supervises the performance of assignments by subordinate organisational units, whose scope of activity covers:
    a) company organisation,
    b) supporting the operations of the Company's governing bodies,
    c) privatisation, Company restructuring,
    d) ownership supervision and capital investments,
    e) internal structural and ownership transformations,
    f) providing information and reports to investors, shareholders and stock exchange institutions,
    g) implementing LW BOGDANKA S.A.'s strategy and the Company's long-term plans,
    h) co-operation with the media and the information policy,
    i) current records archive and general secretariat,
    j) internal audit in the Company,
    k) matters of defence,
    l) HR policy, employee and social issues,
    m) occupational health and safety, training workshops,
    n) diversification of the Company's operations and EU integration,
    o) future plans with regard to the development and modernisation of the production process,
    p) protection of personal data and confidential information,
    q) monitoring the sales of trade coal and the quality of coal output, as well as the operations of the coal processing plant,
    r) conducting chemical and physical analysis and inspections of the work environment, as well as sampling the quality of coal dust kept in the warehouse,
    s) monitoring the quality of construction ceramics.

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

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

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

1. Managing the Company's finances.
2. Economic effectiveness of investment projects.
3. Pay and insurance policy.
4. Economic and financial analyses.
5. Reporting and statistics.
6. Budgeting and controlling.
7. Supervising Company value management.
8. Providing financial and bookkeeping services.
9. Accounting and settlements with business partners.
10. Continuous stocktaking.

Major responsibilities of the **Vice-President for Economic and Financial Affairs as the Chief Accountant** include:

1. Organising the work of subordinate departments and ensuring their effective operation in line with the Accounting Act and other accounting tasks.
2. Drawing up the required current financial statements.
3. Drawing up the annual financial statements.

4. Supervising the organisation of management accounting.
5. Compiling internal reports for the Company's governing bodies.
6. Ongoing analysis of settlements (accounts receivable and liabilities).
7. Approving documents for payment and posting.
8. Submitting motions to the Company's Management Board regarding issues requiring its decision.
9. Developing the rules for managing short-term securities.
10. Organising the work related to financial management in terms of cash accounting and settlements with third parties.

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

1. Sales and wholesale shipping of coal.
2. Coal warehousing.
3. Sales of construction ceramics.
4. Designing and executing promotional, advertising and brand management activities.
5. Market analyses.
6. Rail transportation.
7. Logistics and warehouse management.
8. Computerisation of the Company.
9. Organising and holding tenders, concluding contracts and verifying them in terms of legal and formal issues
10. Production of construction ceramics.

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

1. Investment and refurbishment activities.
2. Cost estimation and service valuation.
3. Material and machinery management.
4. Environmental protection and utilisation of pit waste.
5. Maintaining and developing production capacity.
6. Analysis and optimisation of the usage of production capacity, including machinery and equipment.
7. Deposit management planning.
8. Trade coal mining and production.
9. Keeping surveyor and geological records, as well as production records.
10. Technical and economic progress.
11. Organising and planning production and mine development.
12. Research and implementation.

Member of the Management Board elected by employees is responsible for:

1. Co-operating with the workforce and the trade unions active in the Company.
2. Social dialogue in the Company.
3. Creating conditions for better use of the Company's social potential (internal marketing).
4. Supervising the correct use of the funds available from the Company's Social Fund.
5. Performing other duties imposed by the resolutions of the Management Board.

Łęczyńska Energetyka Sp. z o.o.

As at 31 December 2009 and as at the day of submitting the Report, the Management Board of the company was composed of:

1. Marek Martyn - President (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 29 October 2007)
2. Stanisław Misterek - Vice-President of the Management Board, Economic and Financial Affairs (pursuant to the resolution of the Supervisory Board of Łęczyńska Energetyka of 30 October 2008)

11.8.1.4 Information on powers of proxy granted and revoked at LW BOGDANKA S.A.

By virtue of the Management Board's resolution No. 1/VII/2010 of 16 June 2010, the Power of Proxy held by Mr Henryk Koza, Msc. Eng. Investment Director, was revoked (Power of Proxy since 13 April 2007). By virtue of the Management Board's resolutions No. 2/VII/2010 and 3/VII/2010 of 16 June 2010, Powers of Proxy were granted to Mr Janusz Chmielewski, Msc. Eng., Chief Engineer - Head of Mining Supervision in Mining Facility and to Mr Andrzej Jabłoniec, Msc. Eng., Investment Director. On 25 October 2010, by virtue of the Management Board's resolution No. 530/VII/2010 the Power of Proxy was granted also to Mr Grzegorz Gawroński, Head of the Management Board's Office.

The Supervisory Boards

11.8.1.5 Compositions of the Supervisory Boards

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 31 December 2009, the composition of the Supervisory Board of LW BOGDANKA S.A. was as follows:

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

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.

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.

Supervisory Board - 7th term of office from 10 June 2010

On 10 June 2010 (the date of Annual General Shareholders Meeting approving the Company's financial statements for 2009) the following persons were appointed to the composition of the Supervisory Board:

1.	Eryk Karski	- Chairman of the Board
2.	Stefan Kawalec	- Vice-Chairman of the Board
3.	Jadwiga Kalinowska	- Secretary of the Board
4.	Ewa Pawluczuk	- Member of the Board
5.	Adam Partyka	- Member of the Board
6.	Andrzej Lulek	- Member of the Board

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 30 June 2012.

As at the submission of this Report, i.e. 21 March 2011, and as at 31 December 2010 the Supervisory Board was in office in the above composition.

As at 31 December 2010 and as at the day of submitting the Report, the Supervisory Board of Łęczyńska Energetyka Sp. z o.o. was composed of:

1.	Zbigniew Stopa	- Chairman of the Board
2.	Mirosław Taras	- Vice-Chairman of the Board
3.	Teodor Kosiarski	- Secretary of the Board
4.	Janusz Chmielewski	- Member of the Board
5.	Józef Stach	- Member of the Board

11.8.1.6 Description of activities of the Parent Undertaking's Supervisory Board

The Supervisory Board exercises continuous supervision over the Company's activities in all areas of its operations.

The Supervisory Board adopts resolutions in matters provided for in the Commercial Companies Code and the Articles of Association of the Company.

The responsibilities of the Supervisory Board include:

- assessment of reports,
- assessing motions of the Management Board regarding the distribution of profits or covering of losses;
- submission to the General Shareholders Meeting of an annual written report on the results of the activities referred to in items 1 and 2,
- selecting a chartered auditor to audit annual financial statements;
- determining the scope and deadlines for the Management Board's submission of annual material and financial plans and long-term strategic plans;
- issuing opinions on long-term strategic plans;
- issuing opinions on annual business plans (specifying the tasks to be performed and the related budgets),
- adopting rules laying down the detailed procedure followed by the Supervisory Board;
- adopting for the Company's internal purposes the uniform text of the Articles of Association,
- approving the Management Board rules;

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

- acquisition or disposal of real estate, perpetual usufruct right to or an interest in real estate with a value exceeding the PLN equivalent of EUR 250,000.00.
- acquisition or disposal of property, plant and equipment not related to the Company's core business, where the value of a single transaction exceeds one-twentieth of the Company's share capital,

- conclusion by the Company of an agreement with a value exceeding the PLN equivalent of EUR 5,000.00, where the subject matter is a donation or release from debt, or another agreement where the subject matter is not related to the core business of the Company as defined in the Articles of Association, the equivalent of the amount is calculated at the exchange rate quoted by the National Bank of Poland as at the date of concluding the agreement
- entering by the Company or by its subsidiary into a significant contract with an entity related to the Company, a member of the Supervisory Board or a member of the Management Board, and with entities related to them. The obligation to express consent does not concern typical arm's length transactions concluded as part of the operating activity by the Company and a subsidiary in which the Company holds a majority equity interest;
- entering by the Company into a credit, loan, or surety agreement or any similar agreement with a member of the Management Board, a proxy, a liquidator, or for the benefit of any of those persons;
- issue of bonds, excluding issue of securities referred to in Article 52.3.5;
- granting by the Company of a loan, a guarantee, issuing a bill of exchange or granting other indebtedness.

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

- appointing and dismissing members of the Management Board,
- establishing the remuneration rules and remuneration amounts to be received by the Management Board members,
- suspending members of the Management Board for important reasons,
- delegation of the Supervisory Board members, for a period of up to three months, to temporarily perform the duties of Management Board members who have been removed from office, resigned from office or are unable to perform their duties for another reason,
- representing the Company in agreements and disputes between the Company and the Management Board members,
- granting consent to the creation of foreign branches of the Company,
- granting permission to Management Board members for accepting positions on the governing bodies of other companies.

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

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

The Board may appoint standing and temporary committees from among its members. The Audit Committee is a standing committee at the Supervisory Board.

11.8.1.7 Audit Committee

The Audit Committee is composed of three members, at least one of whom shall be an independent member, subject to Article 8.8 of the Rules of Procedure of the Supervisory Board, and at least one shall possess competence and experience with regard to finance and accounting.

The task of the Audit Committee shall be advising the Board in matters of appropriate implementation of standards of budget and financial reporting and internal control of the Company and its Group, as well as chartered auditors auditing the Company's financial statements.

In particular, the duties of the Audit Committee shall include:

(i) review of interim and annual financial statements of the Company (separate and consolidated),
(ii) cooperation with the chartered auditor auditing the financial statements of the Company and recommending to the Supervisory Board the auditor to be selected,

(iii) discussing the nature and scope of audit with chartered auditors, before the commencement of an audit of the annual financial statements, and

(iv) providing the Board with information on the work of the Audit Committee, including any suggestions on the necessity to take specific measures.

Until 10 June 20010 the Audit Committee was composed of:

1. Grażyna Dec
2. Henryk Czapla
3. Adam Partyka.

As the new composition of the Supervisory Board was appointed, on 6 July 2010 the Supervisory Board appointed the Audit Committee in the following composition:

1. Eryk Karski
2. Ewa Pawluczuk
3. Jadwiga Kalinowska

Eryk Karski and Ewa Pawluczuk are independent members of the Audit Committee.

11.8.2 General Shareholders Meeting of LW BOGDANKA S.A.

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

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

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

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

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

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

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

Persons entitled under registered shares and temporary certificates and pledgees and usufructuaries who are entitled to vote have the right to participate in the General Shareholders Meeting provided that they are entered in the shareholders register on the date of registering participation in the meeting. Further, members of the Company's Management Board and the Supervisory Board have the right to participate in the General Shareholders Meeting. The chartered auditor who audits the Company's financial statements and the Company's chief accountant are also entitled to participate in the General Shareholders Meeting convened to discuss financial affairs of the Company. Experts and guests invited by the body which convenes a particular General Shareholders Meeting can also participate in the meeting.

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

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

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

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

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

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

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

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

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

Table 1 Selected financial information of the Group 15

Table 2 15

Table 3 Production (extraction) capacity of LW BOGDANKA for 4 quarters 2010 and 4 quarters 2009 ('000 tonnes) 17

Table 4 Sale of coal of LW BOGDANKA for 4 Qs 2010 and 4 Qs 2009 ('000 tonnes) 18

Table 5 Stock of coal 18

Table 6 Dynamics of changes in product range with respect to revenue on sales of the LW BOGDANKA Group (PLN '000) 19

Table 7 Structure by type of revenue on sales of the LW BOGDANKA Group 20

Table 8 Geographical structure of revenue on sales of the LW BOGDANKA Group 20

Table 9 Selected items of the statement of comprehensive income of the LW BOGDANKA Group 20

Table 10 Profitability ratios of the LW BOGDANKA Group 22

Table 11 Debt ratios of the LW BOGDANKA Group 23

Table 12 Liquidity ratios of the LW BOGDANKA Group (in days) 23

Table 13 Turnover rates of the LW BOGDANKA Group (in days) 24

Table 14 Selected forecast and achieved items of the consolidated statement of comprehensive income of the LW BOGDANKA Group in 2010 (in PLN '000) and the degree to which the forecast was fulfilled (in %) 25

Table 15 Implementation of investment tasks in 2010 and the plan for 2011 broken up into individual tasks 35

Table 16 Tangible and intangible fixed assets placed in service in 2009 and 2010 35

Table 17 Value of investment expenditure incurred in 2009 - 2010 broken down by groups of fixed assets 44

Table 18 The number of the Company shares and shares in a subsidiary of the Company held by the members of 60

Table 19 Employment in the Group 61

Table 20 Remuneration in the Group 62

Table 21 Waste 67

Table 22 Cost related to environmental protection [in PLN '000] 68

Table 23 Exploitation charge and mining use charge [in PLN '000] 68

Table 24 Fees of Łęczyńska Energetyka Sp. z o.o. for the economic use of natural environment over the last three years 70

Table 25 Advertising budget execution in 2010 [in PLN] 74

Table 26 Fee for PwC for the review and audit of the financial statements and the fees for other services performed by PwC (PLN '000 net) 76

Table 27 The shareholding structure of LW BOGDANKA S.A. as at the date of submitting the previous interim Report, i.e. 8 November 2010 and 21 March 2011 79

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Mirosław Taras	**President of the Management Board**	....
Krystyna Borkowska	**Vice-President for Economic and Financial Affairs, Chief Accountant**	....
Waldemar Bernaciak	**Vice-President for Trade and Logistics**	....
Zbigniew Stopa	**Vice-President for Technical Affairs**	....
Lech Tor	**Member of the Management Board elected by the employees**	....

Bogdanka, 18 March 2011